European Commission

NATIONAL ROUNDTABLE ON FINANCING ENERGY EFFICIENCY IN IRELAND

11 October 2018

Dublin

Event organised in the frame of the Sustainable Energy Investment Forums funded by the Horizon 2020 programme of the European Union

EASME

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EXECUTIVE SUMMARY

The European Commission, in partnership with the Sustainable Energy Authority of Ireland and the UN Environment Finance Initiative (UNEP FI) organised a National Roundtable on financing energy efficiency in Ireland, which took place in Dublin on Thursday 11 October 2018. The event was attended by 78 experts who are engaged in financing energy efficiency from national government, the financial sector, project developers, the renovation supply chain and local and regional government.

The objective of the Roundtable was to foster discussion on:

1. How to set the right policy framework and support instruments for SME participation in energy efficiency investment - Energy Efficiency for SMEs: Creating a Policy Framework Responding to Needs
2. How to improve support for SME action and investment on energy efficiency, and address market barriers to such investment - Overcoming SME Market Barriers to Making Energy Efficiency Investable
3. How to expand energy efficiency investment by public authorities following the publication of Eurostat on statistical treatment of energy performance contracts (EPCs) - EPCs as a Financing Model for Energy Efficiency

The outputs from the three in-depth topic groups was summarized as:

TOPIC GROUP 1

ENERGY EFFICIENCY FOR SMES: CREATING A POLICY FRAMEWORK RESPONDING TO NEEDS

- Communication is key, to businesses as with as well as within the existing community of energy efficiency experts. This issue came out when addressing all three questions that the group looked at, on supporting measures for SMEs, on barriers and on solutions. Stakeholders should be able to speak “the same language” in terms of energy efficiency investment.
- On measures that could support greater SME energy efficiency activity, there was interest in looking further into tax incentives, as in the example given in the presentation from Italy. There was also recognition of the need to think about who the intermediaries in energy efficiency transactions are and what the business case and business model is for their activity and how that can be supported
- On barriers, the complexity (and associated form filling) associated with SME support schemes came out strongly, as did uncertainty and the stop start nature of support as a result in part of annualised budgeting by Government

Two solutions were identified as the strongest:

- Firstly, taking a sectoral approach to the SME market and doing some work on segmentation
- Secondly, communication, to build certainty and trust, to drive demand and to build confidence in intermediaries

TOPIC GROUP 2

OVERCOMING SME MARKET BARRIERS TO MAKING ENERGY EFFICIENCY INVESTABLE

The session considered how to increase the scale and penetration of energy efficiency in Ireland.

- New financial instruments, blended grant and loan instruments emerged as a preferred option. (0% financing also came up, but won't bring everyone to the table). SBCI were identified as having a key role in delivery; national energy efficiency is a big project that needs lots of different state agencies to come together to work on it. On market awareness the need to make energy efficiency "cool" was recognised, with this to be supported by digital campaigns
- Simplicity is key. Keeping things simple and focusing on securitisation and standardisation – i.e. not requiring business to continually come up with new forms of contract, investor grade audits etc
- Providing peer to peer information and benchmarks could help with de-risking. SMEs should be approached by trusted partners
- The potential for group purchasing was identified, to reach scale and enable peer to peer interaction to get volume discounts

TOPIC GROUP 3

ENERGY PERFORMANCE CONTRACTS AS A FINANCING MODEL FOR ENERGY EFFICIENCY

The session started by discussions on a number of well-known barriers; lack of experience, lack of capacity, need for co-learning platforms and standardisation.

When it came to how to solve these, the following suggestions were proposed to get market moving:

- A Project Management Office or entity was proposed, which could take many forms, from simple facilitators, through to a central project bureau to facilitate people to implement projects
- But if scale is needed then there is a need to get the governance structure right. The example of the Roads Management Office public lighting scheme was seen as successful. Project managers were appointed and given a clear mandate, they engaged with NewERA / DPER and looked at on-off balance sheet solutions etc and aggregated the opportunity beyond just one local authority.

BACKGROUND TO THE EVENT

As part of the "Smart Finance for Smart Buildings" initiative, the European Commission is organising a series of “Sustainable Energy Investment Forums” (SEI Forums) across the EU to enhance the capacity of and co-operation between public and private stakeholders to develop large-scale investment programmes and financing schemes. These Forums consist of more than 30 events in up to 15 Member States in 2016-2019; information on past and upcoming events can be found on the SEI Forums webpage.

The Roundtable builds on an initial SEI Forums regional conference on “Promoting and Financing Energy Efficiency in Ireland and the United Kingdom”, which took place in Dublin on 28 September 2017. This event gathered participants working on energy efficiency finance from the financial sector, national government, project developers, the renovation supply chain, and local and regional agencies. The presentations and proceedings from that event can be found on the event webpage

MORNING PLENARY

OPENING REMARKS

Kevin O'Rourke, Moderator, Marchena Energy Management Services

The EU Clean Energy for All Europeans package is striving to put energy efficiency first. €20 billion is being invested in energy efficiency in Europe, but to meet longer-term goals, that needs to go up by a factor of 8. This is also the case in Ireland where energy efficiency investment needs to increase significantly.

We will hear more about the EU Clean Energy package and its associated Smart Finance for Smart Buildings initiative. Two sectors are in focus for the event, SMEs and the public sector. The event builds on last year's public conference where these were confirmed as priorities.

The barriers to energy efficiency are well-known and will be explored further in the three Roundtables. Participants should come up with a set of practical actions to overcome barriers and upscale the level of investment activity.

WELCOME AND INTRODUCTORY REMARKS FROM THE SUSTAINABLE ENERGY AUTHORITY OF IRELAND

Jim Gannon, CEO SEAI

Business has recognised the need to respond to climate change. Energy efficiency comes high up in that thinking. It is not just a green fad, action on energy and climate by business is extending throughout supply chains and can help with competitiveness and staff retention.

Energy efficiency technologies already exist at scale. There is nothing incredibly innovative about the technology that will be discussed during the roundtables. Technology risk is lower. There is however a gap in knowledge between project developers and executors and financiers. It is incumbent on those on the supply side of the industry to translate technical solutions and bring forward projects that speak the language of financial institutions. Even with that knowledge, investors will look for return on investment, but why would they take on aggregation costs? Secondly, why would financiers invest in new products, when other markets might exist. There is a need to approach the problem from perspectives other than our own.

On the policy side, engaging with high street banks might involve a premium to get the first product into the market. SEAI are looking at this. For the three topic groups running during the Roundtable, SEAI have some examples in each area running already. For example, energy as a service is growing, and Dublin City have executed an Energy Performance Contract which is delivering. SEAI is engaging on the frontline on this with its establishment of a Behavioural Economics unit to inform how to address motivational and decision making gaps, and operating programmes such as its Deep Retrofit scheme, Public Sector and SME programmes.

On the 8th November there will be another event on energy efficiency finance in Dublin, looking at the residential and private sectors and this will explore again the new European Investment Bank and Eurostat guidance on energy performance contracting.

LATEST STATE OF PLAY ON ENERGY EFFICIENCY POLICY AND FINANCING

Paul Hodson, Head of Energy Efficiency, European Commission DG Energy

Presentation here.

In Europe, we have to get industry, transport and buildings to a decent level of energy efficiency. The Recent IPCC report on 1.5°C makes it clear that any pathway to achieving emissions reduction goals from the Paris Agreement means less energy across multiple sectors of the economy. Even for a 2-degree pathway, buildings can't emit any CO_2 and we have to decarbonise energy supply. We have the technology and there are solutions that make sense across different payback periods.

As part of closing the gap on financial solutions, the European Commission established the Energy Efficiency Financial Institutions Group (EEFIG). They agreed that there were lots of cost-effective projects that weren't being realised. They were asked what to do to realise this potential. They suggested 4 things:

I. A long-term policy framework with clear objectives, so that it makes sense to invest
II. Use public money, not to pay for the cost of the improvement measures, but should use it to trigger private investment
III. Project aggregation, as energy efficiency projects are usually small and heterogenous
IV. De-risking, to overcome the false perception that this is a risky area for investment

The policy framework at EU level has now been established. Next steps include this series of Sustainable Energy Investment Forums, and the focus of attention turns to the transposition of legislation and the use of EU money to help close investment gaps and drive leverage.

The revised Energy Performance of Buildings Directive has been agreed and published. Importantly, it contains a requirement for all Member States to publish long-term building renovation roadmaps. Revised roadmaps are due by March 2020, but Ireland has the option of early action and could include theirs in Ireland's energy strategy in 2019.

Negotiations on the Energy Efficiency Directive have concluded and new targets to be achieved by 2030 have been agreed, 32.5% energy savings. This means doing more next decade than this decade. A 30% savings level would have been about the same level of effort. A new package of measures on eco-design and labelling should go through shortly.

In addition to thinking about 2030, we also need to make sure that we meet the 2020 target. In the last few years we have seen energy consumption rise again. European Commission modelling and analysis shows that industry has invested heavily in energy efficiency, buildings and transport are at the root of the increase that's being seen. Model runs show that buildings will have to do the lions' share of the work in meeting 2030 targets.

On building renovation and energy performance, there is considerable interest in the UK Minimum Energy Performance Standards approach and the inability to sell or rent Energy Performance Certificate F & G rated buildings. All new buildings need to be Near Zero Energy Buildings. Under Article 7 of the Energy Efficiency Directive, which covers energy efficiency obligations on energy suppliers, only 18% of measures that Member States report have entailed the use of financial instruments. There is room to use financial instruments more in that area.

The investment numbers are enormous; we are talking about doubling investment in buildings at the very least in the next decade. There is support available through various European Commission and other instruments. ELENA has provided technical assistance grants through the European Investment Bank; this used to be for public authorities only, but has now broadened. This funding enables the preparation of feasibility studies, assembly of project business cases and funding strategies. Take up is not geographically reflective of need – the Netherlands and Denmark are the biggest users of ELENA and they are getting €100s of millions of private investment as a result. (This is a 'first come, first served' scheme.) Such approaches can help link the financial sector to long term renovation roadmaps and financing strategies.

The European Commission are encouraged by progress in Ireland on the legal and financing side of these challenges and look forward to collaborating to assist further with financial support as well as expert input.

SUPPORT FOR ENERGY EFFICIENCY FINANCING FROM THE EUROPEAN INVESTMENT BANK

Andrew McDowell, Vice-President, European Investment Bank

The goal of the European Investment Bank (EIB) is to make a difference by putting in place financial instruments to support EU policy goals. EIB don't want to do things that would happen anyway. Their mandate is to bring in private sector co-financing to every project, but they can provide up to 75% EIB funding for energy efficiency and renewable energy projects in some cases. They are seeking to crowd in funding from the private sector. EIB can also work with the EU Budget for example in blending of different financing streams e.g. under the European Fund for Strategic Investments (EFSI).

Between 2016 and 2020, EIB expect to mobilise €100 billion of debt and equity to mobilise €250 billion into climate action (including climate change adaptation). This would make EIB the biggest climate financier in the world. They are already the biggest financier of energy efficiency and renewable energy in Europe.

Energy efficiency is the no-brainer of energy policy. On its overall energy portfolio, EIB are dealing with trade-offs all the time. For energy efficiency there are no trade-offs. There are typically high rates of economic return with established technologies. Outcomes are good for security of supply and decarbonisation.

The magic solution would be for the public sector to pay for it all. This is not economically feasible or sustainable and there are distributional issues. The beneficiaries of energy efficiency investment should contribute.

Why has it been difficult? From a banker's perspective, there is fragmentation. For an average renewable energy project, investment might be €200 million. Average project size for energy efficiency is much smaller, it might be €50k. So how do you aggregate? There is the issue of technical capacity. In renewable energy there is a group of 15-20 well established project promoters who know what they're doing and so do the bank. That's not the case for energy efficiency. There are technical capacity issues, not just with promoters, but within the banking system. For credit analysis, risk assessment and finance provisioning, special inputs are needed. Energy efficiency also faces the split incentive problem; the difference between who pays and who benefits.

Grants can make a difference, but EIB want to develop a financial instrument for lending to private homeowners, but this can't compete with free money. Grants will always have a role in changing consumer psychology, the difficulty will be in transitioning from grant aid to loan products.

The International Energy Agency has just released its annual investment trends report in energy. The only area where investment is growing in the energy sector is in energy efficiency.-

The challenge ahead is enormous. We have picked off the low hanging fruit in energy efficiency. In the cement, steel and Combined Heat and Power networks sectors, the large projects have been picked off. What's ahead in terms of building renovation is about a different challenge for the banking sector. 4 years ago, an energy efficiency task force was set up within EIB. This has had to link different parts of the bank together to take on the challenge. Within advisory (e.g. ELENA) around €100 million has been deployed in around 8 or 9 years, and another €100 million will come in for the next 3 years. Public sector building renovation products have been developed, and a private sector NZEB product was developed ahead of the new regulations (finance is going to 14 large projects, including work in Copenhagen). There is a product for ESCos, that will deliver direct debt finance to ESCOs under EPCs and will deliver equity direct into funds, in particular those looking to support ESCO Special Purpose Vehicles, risk sharing products, or credit protection on the portfolio of loans. EIB can take 50% of equity, capped or uncapped and provide advice into those structures. This can be done in Ireland. For instance, today already there is a risk sharing product is in place for SMEs in Ireland through the Strategic Banking Corporation of Ireland (SBCI).

EIB want to do a lot more in Ireland. We have built up a great relationship with SEAI, Government and SBCI. This now offers a better way to get products into market through the commercial banking system.

DEPARTMENT OF COMMUNICATIONS, CLIMATE ACTION AND ENVIRONMENT PERSPECTIVE

Rebecca Minch, Principal Officer, Energy Efficiency Division, Department of Communications, Climate Action and Environment

The Irish Government are conscious of the possibility of using EIB funds, but there were constraints on accessing and using them. And scale and aggregation has been a problem that Ireland has struggled with, as have other countries. Today, two strands of activity have driven progress:

Driving progress towards the 2020 target: It is looking like overall that Ireland will come in at 16% energy savings, with public sector savings around 20%. Irish Government are starting to see the impact of asset renewal and the public sector is showing that it can be done.

Laying the basis for the step change in effort post 2020: This comes back to the scale point. Government know that energy efficiency makes sense and is the sensible thing to do and there have been a number of initiatives in the residential, commercial and public sectors. Now the narrative needs to be further developed. Government need a set of evidence in the different sectors to see how each sector responds to the needs and desires of the Irish market.

In the commercial sector, the EXEED programme is moving into being a mainstream programme and provides a basis to support the scaling of projects. It is delivering infrastructure and is also embedding energy management. There is recognition of the need to deliver cultural change as well as the infrastructure and the role of the public sector is important here. A new public sector energy strategy was released last year, to respond to need across the public sector for a clear policy statement which connects directly to the long-term building renovation strategy. As a result of projects delivered and experience to date, Ireland has on the evidence to feed into that strategy. Thus far, energy performance contracting (EPC) uptake has been too low, but some recently established projects in local authority and health buildings may help to build confidence and commitment in this area.

It is not just about financing, strong business cases and plans need to be brought forward, and these should leverage money allocated to SEAI to work done by other organisations and Departments. In this way, the public sector can look at ELENA and other EU funds. Local Authorities for example are looking into this for lighting projects and the Government's Education Department for energy retrofit work on schools.

Across the public sector, energy efficiency has to be seen as a policy enabler, for example as with the Warmth and Wellbeing scheme, in which multiple departments work with people with chronic respiratory problems, aiming to demonstrate the multiple benefits of energy efficiency. The debate is not just about the urgency of targets there. There is a need to understand delivery paths and the value proposition that may come in not just energy terms.

THE ROLE OF STATE SUPPORTED FINANCE IN ADDRESSING ENERGY EFFICIENCY

Nick Ashmore, CEO Strategic Banking Corporation of Ireland

Presentation here.

The Strategic Banking Corporation of Ireland (SBCI) is a wholesale financial institution that can share risk alongside EIB (from which about 50% of its funds are sourced). €1 billion of financing has been delivered to the SME market since 2015, and this has all had the backing of EIB group. The average loan size is around €40,000 to SMEs and over 23,000 businesses have been supported. However, only 18% of investment activity involves the use of financial instruments.

Brexit is giving pause to investment decisions, and there is some preference for businesses to use their own capital to finance investments. Staffing and finding customers are the SME sector's key concerns.

Irish SMEs tend to be smaller borrowers than others in Europe. SBCI have been investigating the costs that SMEs pay. There are premiums on the cost of financing, banks are divesting non-performing loan books as a result of regulation and SBCI are considering the implications.

A number of SBCI schemes have been taken to the market, including credit guarantee support, an agriculture sector cashflow scheme and a Brexit loan scheme. In the pipeline, following the recent Irish budget, is the future growth loan. Loan durations are typically in the 3 to 5 year range.

SBCI is focusing on risk rather than liquidity, as liquidity is now available. The SME sector tends to have less collateral and it can be harder to get good quality cashflow forecasts. Energy efficiency is seen as high risk and SMEs are high risk, if these two are put together, then the risk is compounded and it becomes a risk multiplier, not just additional.

EU funds are being localised to the Irish situation and linked to local Irish finance providers. This enables banks to build scale portfolios without over-exposing their balance sheets. This potentially is an interesting way to look at energy efficiency.

There are some key considerations; SBCI are a policy delivery mechanism and for this to work it needs Government policy and regulatory requirements and needs to be market driven. On the scale issue, from the market side, €300 million would be the minimum size for an SME support scheme. The question now is how to take the pilot work and roll that out at scale and set out a serious statement of intent, in particular for SMEs, who are focussed on other issues. If EIB are scaling, Ireland should be looking to get its fair share of available investment funding.

Ireland's National Development Plan sets out ambitious new home building targets for example. Funding exercises take time to put together, the earlier that SBCI can be involved, the better.

TOPIC GROUP 1

ENERGY EFFICIENCY FOR SMES: CREATING A POLICY FRAMEWORK RESPONDING TO NEEDS

MODERATOR: Andrea Carroll, SEAI

SMEs are often too busy trying to survive to think about energy at all. Access to credit can be difficult. There are 900,000 people employed across the SME sector in Ireland, if they can be engaged in thinking about energy efficiency, it would help deliver a cultural shift.

In recent years, there has been some focus on SMEs by SEAI. 2,000 audits and energy plans have been completed by Small and Medium Businesses. The question is now about how to engage further and deliver follow-up.

There are two key questions governing SEAI's work with SMEs - Are the typical measures, like audits currently working? How do we engage with SMEs?

RAPPORTEUR: Andy Deacon, Climate Alliance

Presentations

Alessandro Federici, ENEA (Italy)

Presentation here.

In Italy, a legislative decree from 2015 allocated €15 million per year until 2020 to co-finance regional programmes aiming at delivering energy audits for SMEs, or for the adoption by SMEs of an energy management system in compliance with ISO 50001 standards. Beneficiaries of the incentive have to realise the identified energy efficiency measures or obtain the ISO 50001 certification. 2016 data reveals potential savings between 0,8 Mtoe and 1,1 Mtoe could be achieved with a payback period equal or less than three to five years respectively.

ENEA, the Italian National Agency for New Technologies, Energy and Sustainable Economic Development, has also led an information and awareness raising campaign targeted at SMEs. The main objective is to encourage companies to perform energy audits and to take advantage of other existing subsidies for the installation of efficient technologies. The three-year campaign was launched by ENEA in November 2016. A tax incentive scheme, EcoBonus, with varied tax deduction rates for different energy efficiency improvement measures. €3 billion euro has gone into funding improvement measures (the most popular of which were windows, shutters and condensing boilers). Tax credits are also available to support innovative startups and SMEs, in particular those in the energy sector. Access to centralised guarantee funds has also been simplified to help with growth and scaling.

Kati Ruohomäki, Confederation of Finnish Industries EK (Finland)

Presentation here.

The Confederation of Finnish Industries represents the entire private sector and companies of all sizes, with 16,000 member companies, 96% of which are SMEs. Since 1992, the Finnish industry sector voluntary energy efficiency agreement has been in place. This enables companies to access public support for investment in energy efficient solutions and through regular reporting by business, provides state-of-the-art monitoring of the state of energy efficiency improvements and reporting of these results to meet national targets under the European Energy Efficiency Directive. The voluntary agreement scheme also provides a 50% subsidy of energy audit costs.

From 2008-2016, the scheme had supported €580 million in investment, delivering an annual CO_2 saving of 3.2 million tonnes across 460 companies (with over 4,200 sites). Measures supported have to have more than 3 years payback, but not have too long a payback period, otherwise they are declared not economically effective.

Finland expects to extend the scheme until 2025. Further information on the Agreements can be found at: http://www.energiatehokkuussopimukset2017-2025.fi/en/

Scope

The previous conference recognised that public funds would be needed to encourage sustainable energy investment in the SME sector and that resilience and job protection were key for SMEs. Other consistently identified barriers to action were access to low or zero cost finance, grants and the lack of available time, technical skills, management support and funding. In other words, addressing finance needs is not enough, as other enabling factors are also required for a successful sustainable energy investment in the SME sector.

Current energy efficiency policy in Ireland encourages the commercial sector to improve energy efficiency with incentives including, advice and other support, as well as some grants. The leaders in the area tend to be larger industry as opposed to SMEs. However, with increased regulation and pressure to include all players, the policy environment needs to take account of the barriers and challenges faced by SMEs in order to ensure that they play their part in addressing energy efficiency for the benefit of their organisation and for the wider benefits.

Key questions

i. What policy structures most effectively support SME development and growth, with particular reference to energy efficiency?

ii. Which policy barriers are most significant for energy efficiency investment in the SME sector in Ireland?

iii. How can the gaps in existing support schemes be addressed to encourage investment in energy efficiency in the SME sector?

Discussion Points

The discussions that came up following the presentations and in response to the question focussed on the following areas:

Interest in the fact that both the Swedish model and the Italian model included an offering of energy audits for SMEs. However, both offerings included other substantial elements as part of their overall offering – including incentives, marketing and promotion, as well as a fully aligned subsidy scheme for participants. There was discussion round the fact that if we are to offer energy audits to SMEs, without compulsion, then promotion and incentives should go hand in hand.

Discussion around financial supports, the need to align grants with other aspects of energy efficiency promotion but also the important of alternative funding sources, e.g. Tax Relief (synergy with Accelerated Capital Allowance), Interest free (or low rate) loans, with longer loan periods to encourage deep retrofit. Also comments on the need to ring fence funding for Energy efficiency – “use it or lose it”.

Communication, trust and promotion are key to encouraging SME engagement on this topic, and lack of communication and lack of clarity repeatedly came up as identified barriers for SMEs.

Barriers identified were focussed on lack of certainty and complexity for SMEs, resulting in lack of engagement in this as a topic.

In addition, attendees spoke about the hesitancy of SMEs to take on debt, even where partial funding is available, because of complexity of accessing funding and the cashflow issues created in up front funding of energy upgrades without access to private financing (e.g. loans). Ideally such spend can't come out of cashflow for SMEs and should be cost neutral to encourage significant uptake.

Participants said that gaps can be addressed by considering a segmented, sectoral approach to the market and interestingly they stressed the importance of continuing to encourage behavioural change in helping SMEs address the "low hanging fruit", which Kati Ruohmaki had mentioned was constantly changing and as such should be constantly considered.

TOPIC GROUP 2

OVERCOMING SME MARKET BARRIERS TO MAKING ENERGY EFFICIENCY INVESTABLE

Moderator: Brian O'Mahony, SEAI

Rapporteur: Kamila Paquel, European Commission, EASME

Presentations

Caroline Milne, Joule Assets Europe

Presentation here.

Caroline Milne provided some practical insights from the SEAF project, which has developed an online platform designed to enable energy efficiency and distributed renewables market opportunities in several EU Member States. Caroline shared findings from Joule Assets early experience from the platform.

Kamila Paquel, European Commission, EASME

Presentation here.

Kamila Paquel presented a range of EU level initiatives that support energy efficiency investment in the SME sector, including the Smart Finance for Smart Buildings Initiative and relevant projects supported through Horizon 2020 programme and Cohesion Policy funds. She also pointed to growing support resources such as the Energy Efficiency Financial Institutions Group (EEFIG) Underwriting Toolkit and the DEEP (De-risking Energy Efficiency Projects) database of project case examples.

Scope

SEAI and other local and national agencies support businesses to shift to more sustainable energy use. Advice, mentoring, training, standards development and financial support is provided to a broad range of energy users. This support aims to deliver continuing financial savings through energy efficiency, together with many important co-benefits. Energy assessments, advice and mentoring provided to SEAI's SME programme participants lead routinely to 10% energy savings in the first year of interaction. The value of energy, CO_2 and other pollutant savings significantly outweighs the cost of investments to achieve them, leading to a strong net return to participants and society over time.

It is well established that many investments in energy efficiency improvements save more than they cost as a result of reduced energy usage. It is also evident that many such investments are not being taken by SMEs despite the opportunity for good (often short-term) economic returns. Many reasons exist for this lack of action: time constraints, financial barriers, lack of knowledge, inadequate human resources, etc.

Key questions

i. How can we scale and increase the penetration of energy efficiency projects in Ireland, using existing or new financial models?

ii. What solutions are there and what key factors from successful projects from overseas could best be implemented in Ireland?

iii. In what form should an appropriate financial instrument be provided to encourage action in this sector? Who should own next steps and actions?

Discussion Points

The discussions around the first two questions included the following points:

- Part of the context is that in Ireland, greenhouse gas reduction targets are among political priorities, and projects contributing to achieving them may therefore get traction more easily than those that do not have quantified or have poor greenhouse gas impacts. A few projects displaying the relevance of energy efficiency investment to the political agenda in Ireland could provide for "stepping stones" in the transition to a much higher uptake of sustainable energy investment.
- Simplicity is key. Keeping things simple and focusing on securitisation and standardisation – i.e. not requiring business to continually come up with new forms of contract, investor grade audits etc. Even where standardised contracts exist, private investors may need time to recognise them. To avoid legal time and costs in each project, this issue could be addressed upfront.
- Standardisation of investment features does not address the challenge of diversity of clients. A pull on the demand side of energy efficiency investment seems essential.
- The banking sector's experience shows that the pull on energy efficiency investment demand in SME sector comes often from fear of losing business. Benchmarks matter – overheads count in addition to the sales. Inefficient units can be identified and addressed.
- On market awareness, the need to make energy efficiency "cool" was recognised (in addition to savings and comfort), with this to be supported by digital campaigns. Energy efficiency should be branded as a commercial product/service. Visibility of energy performance indicators based on energy audits could raise awareness. Chambers of Commerce could be helpful stakeholders in this regard.
- SMEs are non-homogenous businesses, and differences need to be recognised so that energy efficiency investment schemes can be tailored.
- Many initiatives, such as energy audits or training, rarely include an investment follow-up. SMEs lack time, not financial opportunities, to implement energy efficiency measures. Simplicity and awareness are therefore the key ingredients to foster investment in SMEs.
- Some owners of SMEs may in some cases be sacrificing pension to get the energy efficiency investment going; a public incentive could be provided in the form of securitisation of pensions.
- In some cases, regulatory measures (sticks) may be better at pooling demand than incentives (carrots). Especially in some segments of the SME market, where operators are well aware of the profit margins e.g. food production.
- One-stop-shop services are important for SMEs but the broker should be credible and independent (referral services).
- Providing peer-to-peer information and benchmarks could help with de-risking and stimulate investment through peer-pressure. SMEs should be approached by trusted partners. Ideas put forward in the group include a framework of recognised ESCos and public bodies.
- The potential for group purchasing was identified, to reach scale and enable peer to peer interaction to get volume discounts. Pooling services e.g. energy efficiency as a service, solar as a service could be an option and it should be open to moving beyond the current successful business model with energy efficient lighting to deeper retrofit/ renovation measures/ packages

Regarding the third question:

- Blended grant and loan instruments emerged as a preferred option. (0% financing also came up, but won't bring everyone to the table). A grant component has a psychological effect, attracting project owners/investors. It can also be necessary for deep renovation investment. With subsidies however, careful consideration should be given to who is taking the benefit.

TOPIC GROUP 3

ENERGY PERFORMANCE CONTRACTS AS A FINANCING MODEL FOR ENERGY EFFICIENCY

Moderator: Alan Ryan, SEAI

Rapporteur: Florian Debeve, Climate Alliance

Presentations

Robert Pernetta, European Investment Bank

Presentation here.

The Eurostat Guidance note from 2017 opened the way for 'off-balance sheet' treatment of Energy Performance Contracting (EPC) in the public sector. The practitioner's guide translates a set of general rules into concrete provisions and covers typical contract provisions and structures. The Guide is official Eurostat guidance and the reference point for Eurostat advice and decision on EPCs. Eurostat rules relate to statistical treatment in government accounts and are based on the principle of 'economic ownership'. These are not to be confused with legal ownership, accounting rules/practices and budgeting and the Guide does not deal with value for money or bankability. In addition to the Guide, the European Investment Bank can provide support for lending, blending and advising, for example on combining EIB finance with EU budget and other sources and through the European Investment Advisory Hub (EIAH) and FI-compass. The presentation explained the Guidance in further detail and explain more about support available from EIB.

Eavan Crehan, NewERA, NTMA

Presentation here.

There are key considerations for public authorities when looking to use off-balance sheet options for financing Energy performance Contracting activity. There may be disadvantages in terms of the cost of funding, which can be higher for private entities than for public bodies, but the new accounting arrangements can offer advantages where cash and/or borrowing powers are constrained. It is important to set out a well-founded business case as first step and to socialise the concept of EPC early on in project preparation.

Scope

The EPC market in Ireland is relatively small, but new guidance from Eurostat and EIB along with existing frameworks and new innovative financial instruments have the potential to drive investment and demand for EPC projects.

Ireland has a well-developed energy services framework, and in this session the participants looked at how this could be affected by (i) the Eurostat guidance, (ii) support available to develop the pipeline of EE projects in public buildings (ELENA, Horizon 2020 PDA projects), (iii) the legal framework needed to support ESCOs, and (iv) capacity building for local authorities especially.

In Ireland, the National Energy Services Framework (NESF) developed by SEAI for public bodies sets out the process for implementing Energy Performance Contracts. The frameworks help bring projects to be investment ready for the energy performance contracting market. It focuses on providing best practice guidance to both public and private organisations for procuring energy services and the engagement of ESCOs. The applicability of NESF have proven challenging however, and the session was asked to focus on how to overcome the barriers standing in the way of successful investment by public authorities though EPC.

Key questions

i. Given the new statistical guidance issued by Eurostat, how can energy performance contracts best be structured to serve the needs of public authorities?

ii. What support (technical or project development) is needed to increase deployment of EPCs?

iii. What is the view of the financial sector, and what role can they play in providing low cost capital for public projects?

iv. What is the view of the ESCO companies/sector of Eurostat guidance and the role of the Practitioners Guide and what is needed next to catalyse the sector?

There were several discussion points:

- Procurement process
- Performance guarantees
- Formulating a strong business case
- Investor grade assessments
- Perceived complexity
- Cost of funding
- Expanding the field of application of 'energy as a service'

Interestingly, Dublin City Council representatives reported on a successfully contracted EPC. The negotiation and navigation process was simpler than appears often to be the reported perception among many players. They have now proceeded to embark on a second such contract for further energy efficiency work.

The Eurostat guidelines are not seen as a panacea and may not be necessary or appropriate in all circumstances. At project level for individual public bodies the potential implications were not clear. However during discussions, the potential to support development of large scale investments through an off government balance sheet mechanism arose. The on/off government balance sheet issue is really one for the Dept of Public Expenditure or the Dept of Finance to examine. There was also the option discussed for public bodies to aggregate projects and discuss with DPER on how the off government balance sheet option could enable projects to proceed, where exchequeor funding was not available. The national public lighting project was muted as an example. Whilst the decision was made not to deliver the project through EPC (discussed in Eavan Crehans presenation) for other reasons, the overall approach could serve as a model to other projects, and for considering the role on/off balance sheet could play. In how the national project prepared the business case, the large scale ambition and interactions with government finance stakeholders, to determine the right finance and delivery solution.

An overall 'model' was discussed for how local authorities especially could approach futehr EPC or financing of projects. It focused on the overall leadership and governance required, the resourcing competency and facilitation approach, how and when to engage finance decision makers, and market interactions.

CLOSING PLENARY

Feedback from Topic Group Rapporteurs

The outputs from the three in-depth topic groups was summarized as:

TOPIC GROUP 1

ENERGY EFFICIENCY FOR SMES: CREATING A POLICY FRAMEWORK RESPONDING TO NEEDS

- Communication is key, to businesses as with as well as within the existing community of energy efficiency experts. This issue came out when addressing all three questions that the group looked at, on supporting measures for SMEs, on barriers and on solutions. Stakeholders should be able to speak “the same language” in terms of energy efficiency investment.
- On measures that could support greater SME energy efficiency activity, there was interest in looking further into tax incentives, as in the example given in the presentation from Italy. There was also recognition of the need to think about who the intermediaries in energy efficiency transactions are and what the business case and business model is for their activity and how that can be supported
- On barriers, the complexity (and associated form filling) associated with SME support schemes came out strongly, as did uncertainty and the stop-start nature of support as a result in part of annualised budgeting by Government

Two solutions were identified as the strongest:

- Firstly, taking a sectoral approach to the SME market and doing some work on segmentation
- Secondly, communication, to build certainty and trust, to drive demand and to build confidence in intermediaries

TOPIC GROUP 2

OVERCOMING SME MARKET BARRIERS TO MAKING ENERGY EFFICIENCY INVESTABLE

The session considered how to increase the scale and penetration of energy efficiency in Ireland.

- New financial instruments, blended grant and loan instruments emerged as a preferred option. (0% financing also came up, but won’t bring everyone to the table). SBCI were identified as having a key role in delivery, national energy efficiency is a big project that needs lots of different state agencies to come together to work on it.
- On market awareness the need to make energy efficiency “cool” was recognised, with this to be supported by digital campaigns
- Simplicity is key. Keeping things simple and focusing on securitisation and standardisation – i.e. not requiring business to continually come up with new forms of contract, investor grade audits etc
- Providing peer to peer information and benchmarks could help with de-risking. SMEs should be approached by trusted partners..
- The potential for group purchasing was identified, to reach scale and enable peer to peer interaction to get volume discounts

TOPIC GROUP 3

ENERGY PERFORMANCE CONTRACTS AS A FINANCING MODEL FOR ENERGY EFFICIENCY

The session started by discussions a number of well-known barriers; lack of experience, lack of capacity, need for co-learning platforms and standardisation.

When it came to how to solve these, the following suggestions were proposed to get markets moving

- A Project Management Office or entity was proposed, which could take many forms, from simple facilitators, through to a project Tsar to make people do projects
- But if scale is needed then there is a need to get the governance structure right. The example of the Roads Management Office public lighting scheme was seen as successful. Project managers were appointed and given a clear mandate, they engaged with NewERA and looked at on-off balance sheet solutions etc and aggregated the opportunity beyond just one local authority.

CONCLUDING REMARKS

Kevin O'Rourke, Moderator, Marchena Energy management services

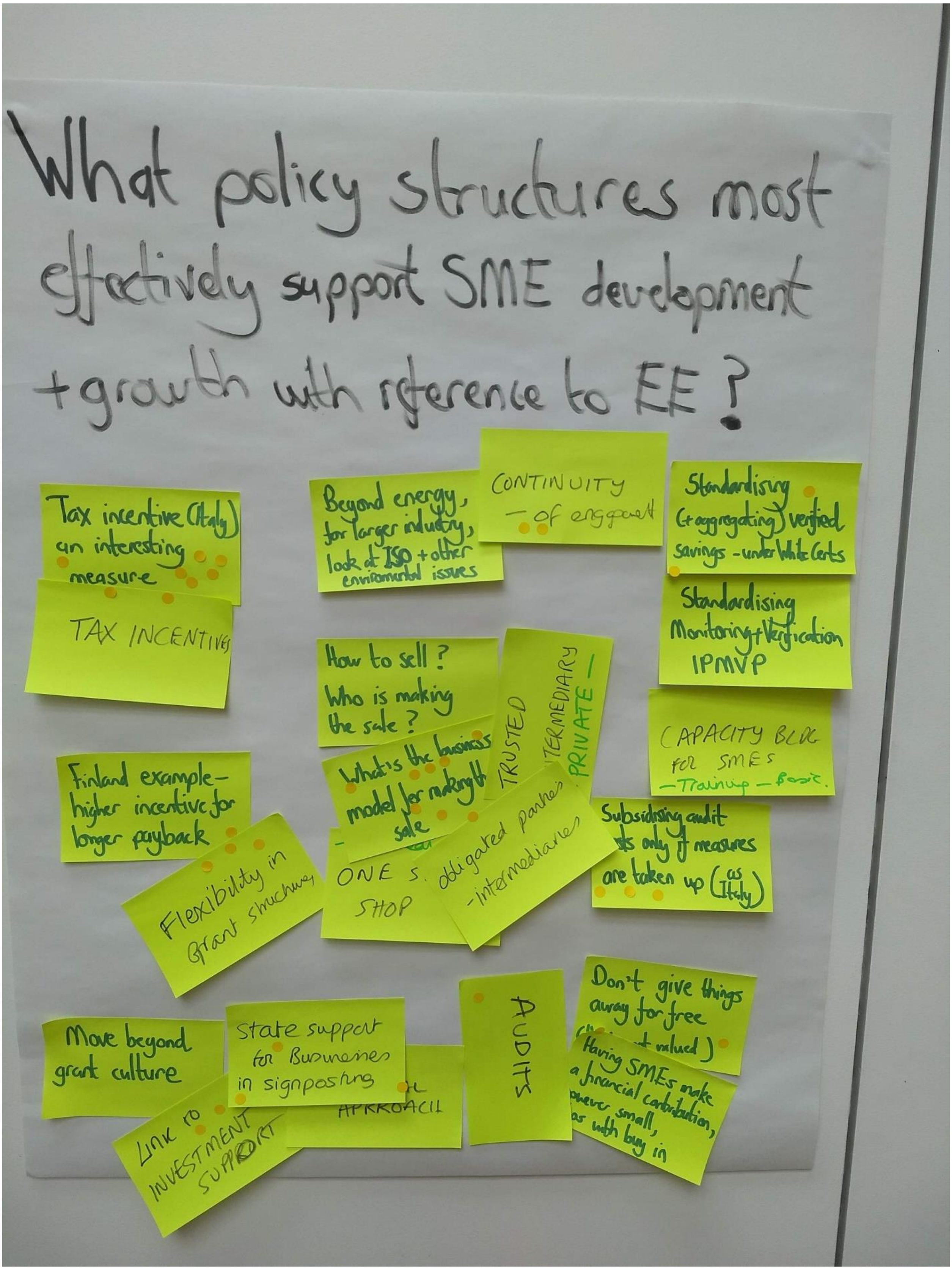
A key theme emerged around simplifying the complex and de-risking. Cutting transaction costs has a key role to play. The two senior bankers alluded to a market failure insofar as finance is often relatively freely available but only for projects that pass muster in terms of return and scale. Creative solutions are needed to the market segmentation and project scaling/ aggregation challenges, with important roles for intermediaries, and the business case for the project (possibly including co-benefits) needs to be made in the language of the financier/ investor.

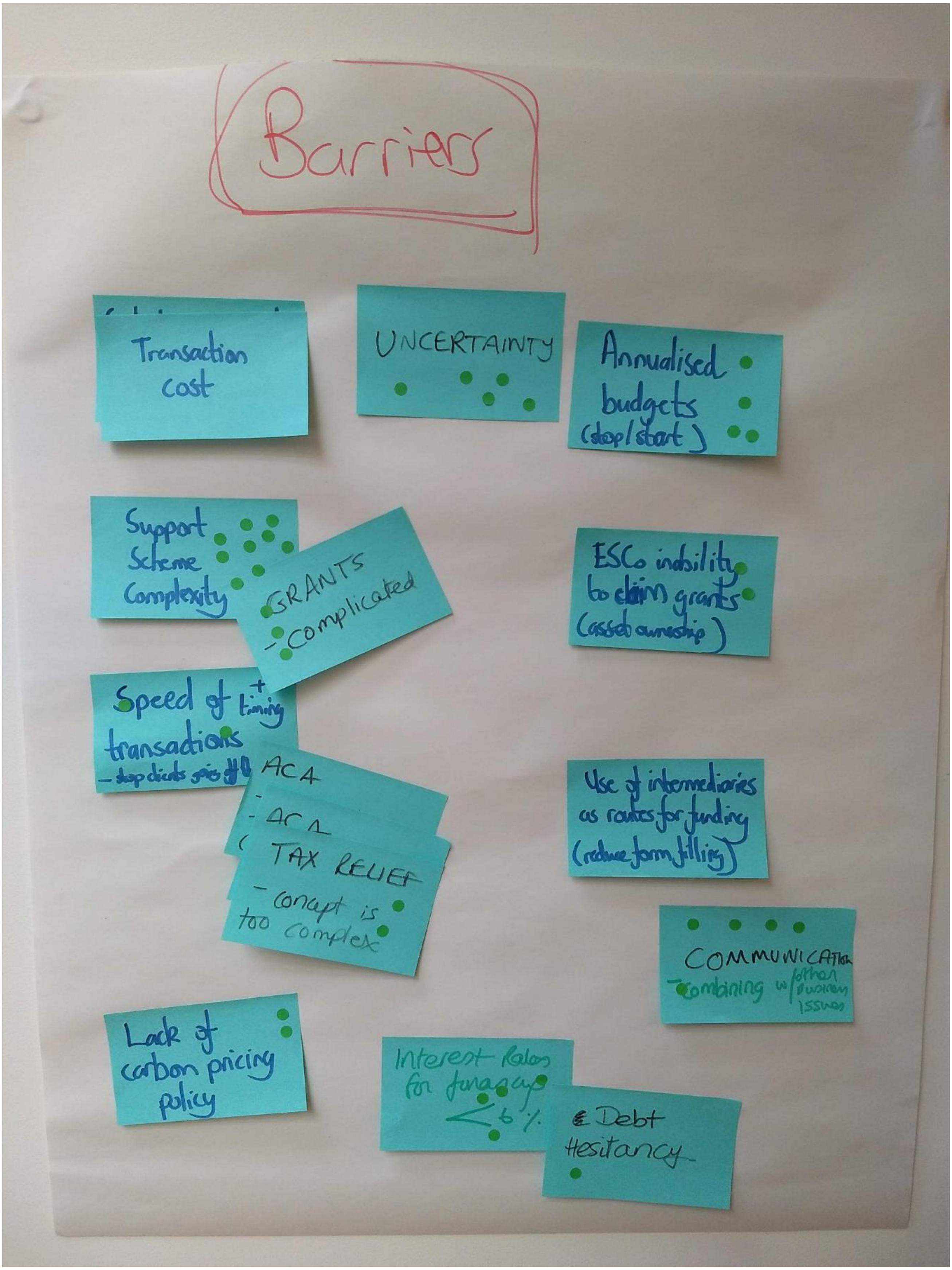
The concept of deep investment and deep renovation in the SME sector didn't emerge strongly, but short-term returns, if more obvious, should be captured too. (The split incentive arising from the high proportion of SMEs in rented premises will colour the perspective). The idea of selling the energy efficiency message in the language of sales (speaking the language of equivalising to missed sales and the consequent bottom line impact) was also missed.

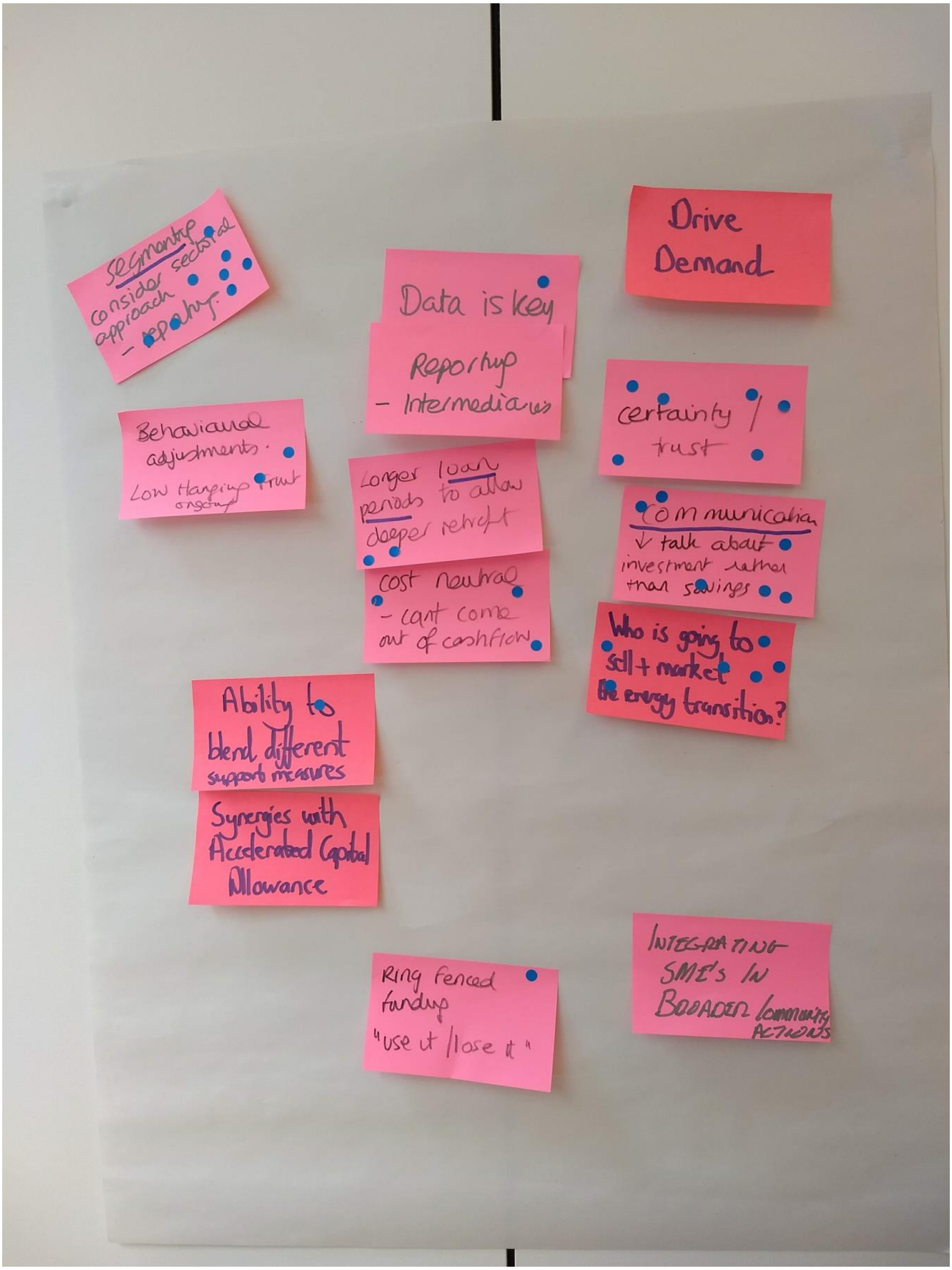
Communication is key, to both end-users and investors, and both policy makers and market intermediaries have important roles to play.

ANNEX 1 – FLIPCHARTS FROM THE TOPIC GROUPS

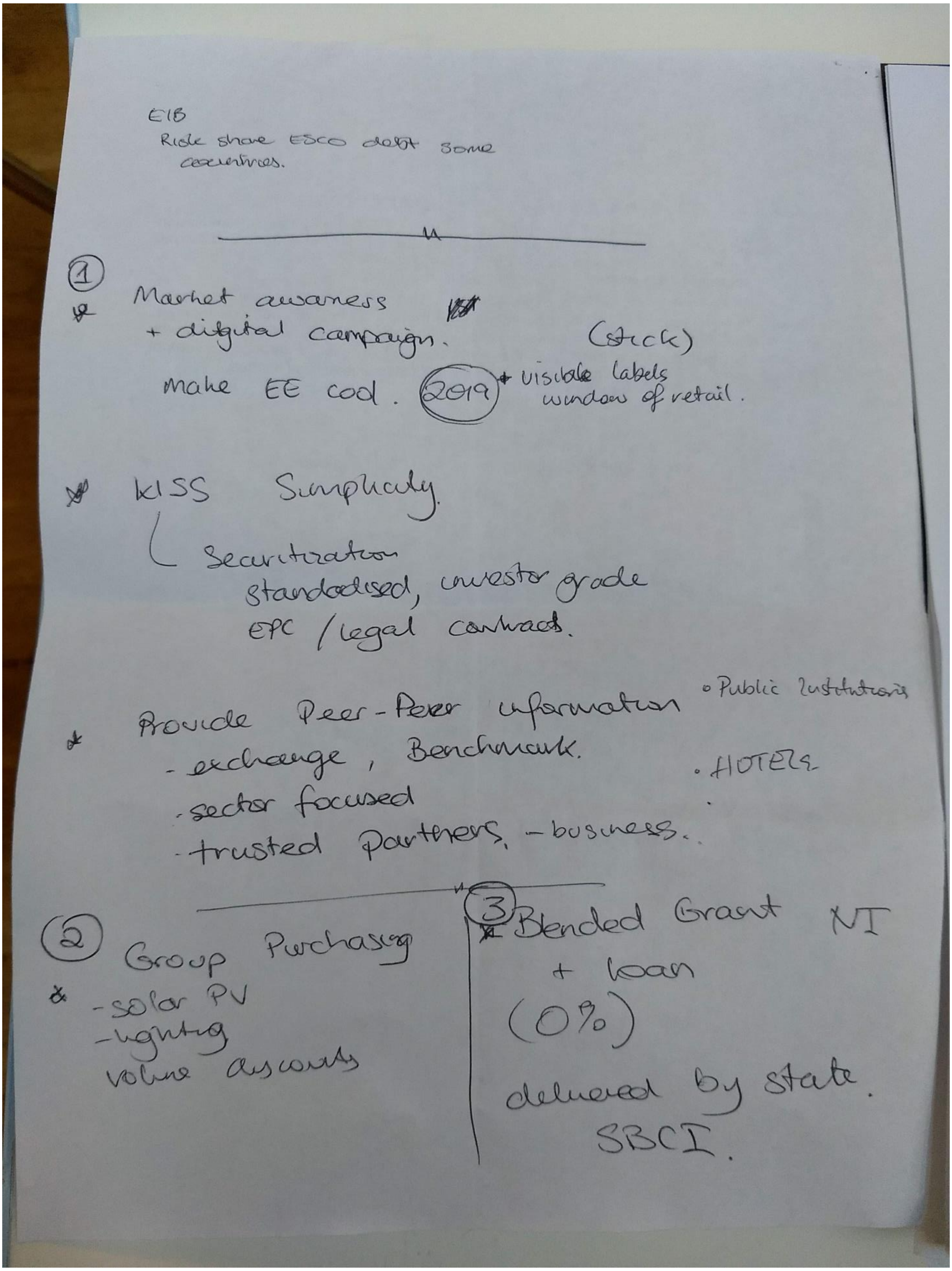
Group 1




Barriers
Transaction cost
UNCERTAINTY
Annualised budgets (stop/start)
Support Scheme Complexity
GRANTS - complicated
ESCo inability to claim grants (asset ownership)
Speed of + timing transactions
ACA
TAX RELIEF - concept is too complex
Use of intermediaries as routes for funding (reduce form filling)
COMMUNICATION - combining w/other business issues
Lack of carbon pricing policy
Interest Rates
<6%
& Debt Hesitancy


Segmenting
consider sectoral approach
- reporting
Data is key
Reporting
- Intermediaries
Drive Demand
Behavioural adjustments.
Low Hanging Fruit
ongoing
Longer loan periods to allow deeper retrofit
cost neutral
- can't come out of cashflow
certainty / trust
Communication
↓ talk about investment rather than savings
Who is going to sell + market the energy transition?
Ability to blend different support measures
Synergies with Accelerated Capital Allowance
Ring fenced funding
"use it / lose it"
INTEGRATING SME'S IN BROADER Community ACTIONS

Group 3



EIB
Risk share ESCO debt some
securitises.

1
Market awareness
+ digital campaign. (stick)
make EE cool. 2019 + visible labels
window of retail.

KISS Simplicity.
Securitization
standardised, investor grade
EPC / legal contract.

Provide Peer-Peer information • Public Institutions
- exchange, Benchmark. • HOTELS
- sector focused
- trusted partners. - business.

2
Group Purchasing
- solar PV
- lighting
volume discounts

3
Blended Grant NI
+ loan
(0%)
delivered by state.
SBCI.