

# Guide on the statistical treatment of EPC

## Financing energy efficiency in Central and South-Eastern Europe

### Sofia, 28 June 2018

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# EPC market in Europe

## Obstacles and Potential

Potential of EPC market is not exploited due to several factors:

- 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 (especially ESIF)

Market potential in selected Member States

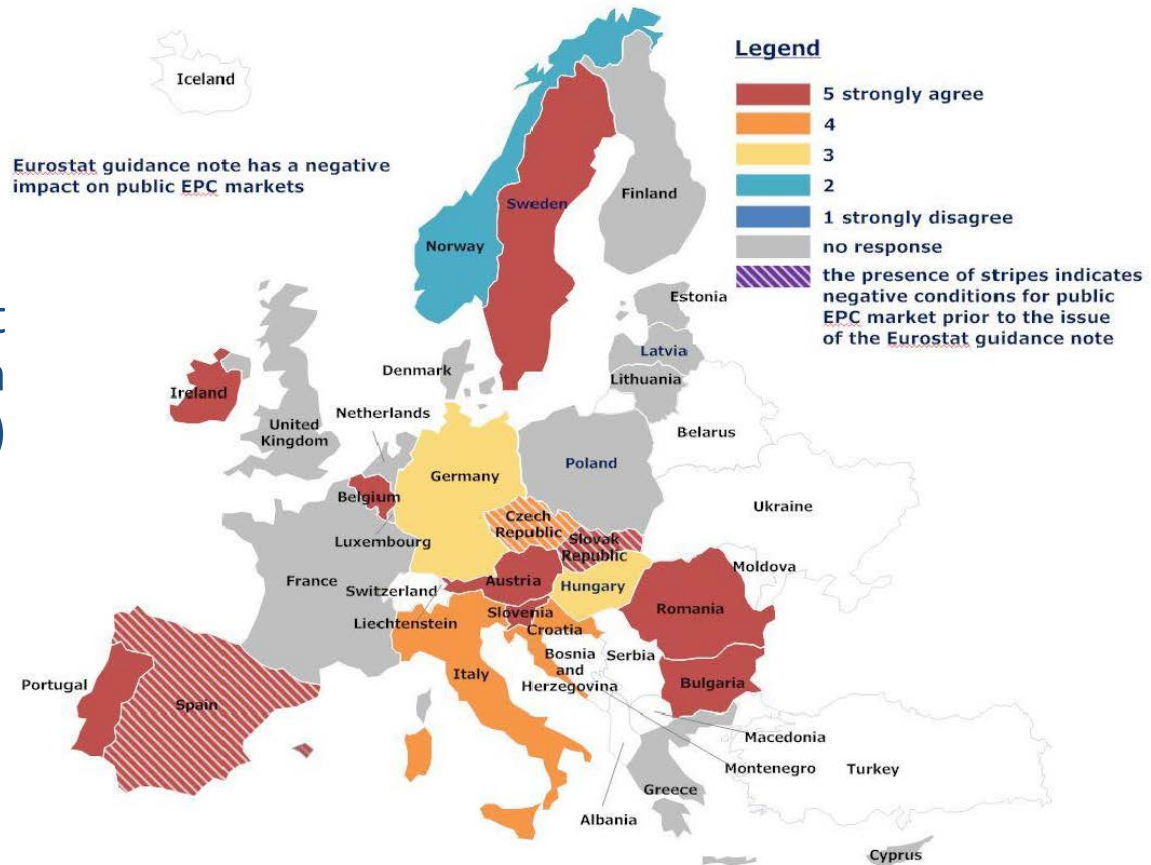
- **Slovenia** project pipeline of EUR 415 million of public sector buildings (2018-2023)
- **Slovakia** public sector buildings stock EUR 3 billion

# 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

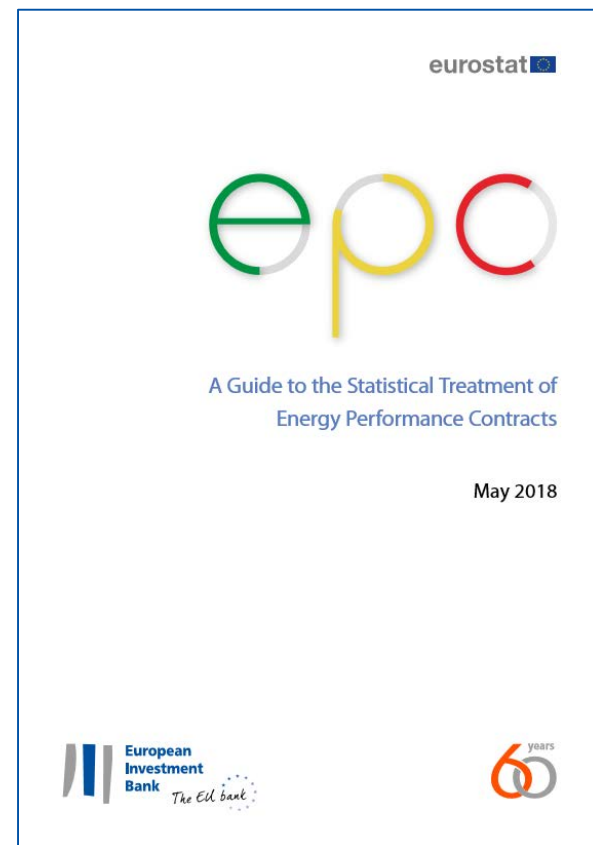
(according to 2017 JRC report 'Energy Service Companies in the EU')



# 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?

# EIB support to implement EPC projects

# EIB support to EPC - Blending

## Case: Deep retrofit of the Karlovac hospital - Croatia

### Key figures



Total investment cost:  
**EUR 8,500,000**



Grant:  
**EUR 2,600,000**



Annual energy savings:  
**6.5 GWh of heat**



Annual cost savings:  
**EUR 528,000**



Annual repayment fee to ESCO:  
**EUR 423,000**



Payback period:  
**14 years**

### Measures

- Building envelope insulation
- Replacement of windows
- Fuel switch to natural gas
- Heating substations
- Thermostatic valves
- Heat pumps
- Solar thermal systems
- New cooling system
- Replacement of in-door lighting

### Financing to the project was provided:

- Grant from the national Environmental Protection and Energy Efficiency Fund
- Debt financing to ESCO from Zagrebačka Banka supported by EC-EIB financial instrument [PF4EE \(Private Finance for Energy Efficiency\)](#)

*Disclaimer: This project is presented as practical EPC example and not for the purpose of balance sheet treatment.*

# EIB support to EPC

## Advising

- National and EU wide awareness raising events
- Advisory and technical assistance services for project preparation, e.g. scoping of market demand, procurement documentation, model contracts, combining EU support and EPCs
- Design of dedicated financial instruments and investment platforms

*Pooling competences of different EIB advisory services through European Advisory Investment Hub (EIAH)*

*Advisory Hub*

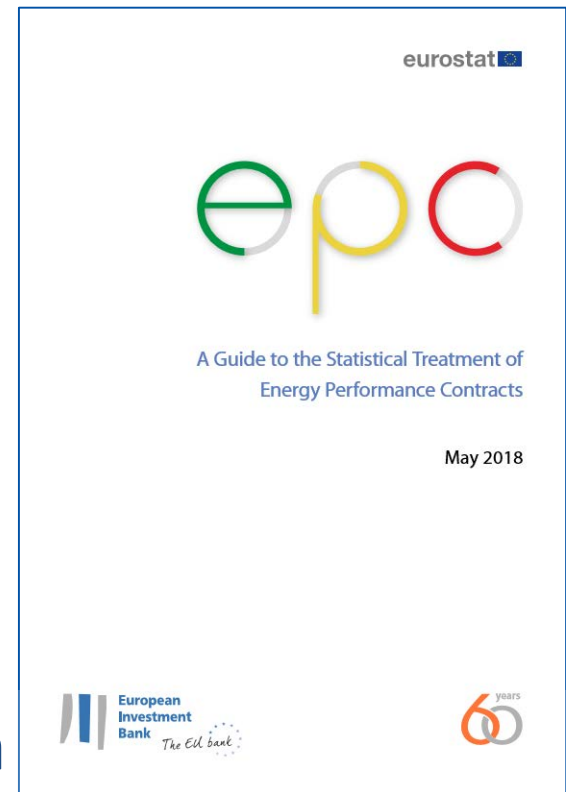
# EIB support to EPC - Advising

## Case: EPC programme of City of Ljubljana

- **Objective:** implement a large investment programme improving energy performance public buildings through EPC and ESCO financing.
- 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 49.2m

### ELENA Technical Assistance support provided for:

- ✓ Set up of an internal Project Implementation Unit
- ✓ Preparation of simplified energy audits, checking the energy baseline for the selected buildings, tender documentation preparation, design of the EPC contracts, tender evaluation
- ✓ External assistance for legal and financial advice



Download guide from

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

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