

# THE INVESTMENT PLAN FOR EUROPE

## ESCO and EPCs developments

**Athens, 31 May 2018**

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**European Investment Bank Group**

# The EIB: the EU bank



- ▶ Natural financing partner for the EU institutions since 1958
- ▶ Around 90% of lending is within the EU
- ▶ Shareholders: 28 EU Member States

**Investing in  
Europe's growth**

# EIB products

We help catalyse investment

LENDING	BLENDING	ADVISING
Loans	<b>Combining EIB finance with EU budget and other public sources</b>	<b>Support for projects and investments</b>
But also:	European Fund for Strategic Investment (EFSI)	European Investment Advisory Hub (EIAH)
Guarantees	Smart Finance for Smart Buildings Initiative (SFSB)	Project Development Assistance (ELENA, JASPERS)
Equity participation	Private Finance for Energy Efficiency (PF4EE)	Improve access to finance (Financial Instrument Advisory, <i>fi-compass</i> )
	Instruments combining ESIF with EIB resources	
Attracting FUNDING for long-term growth		

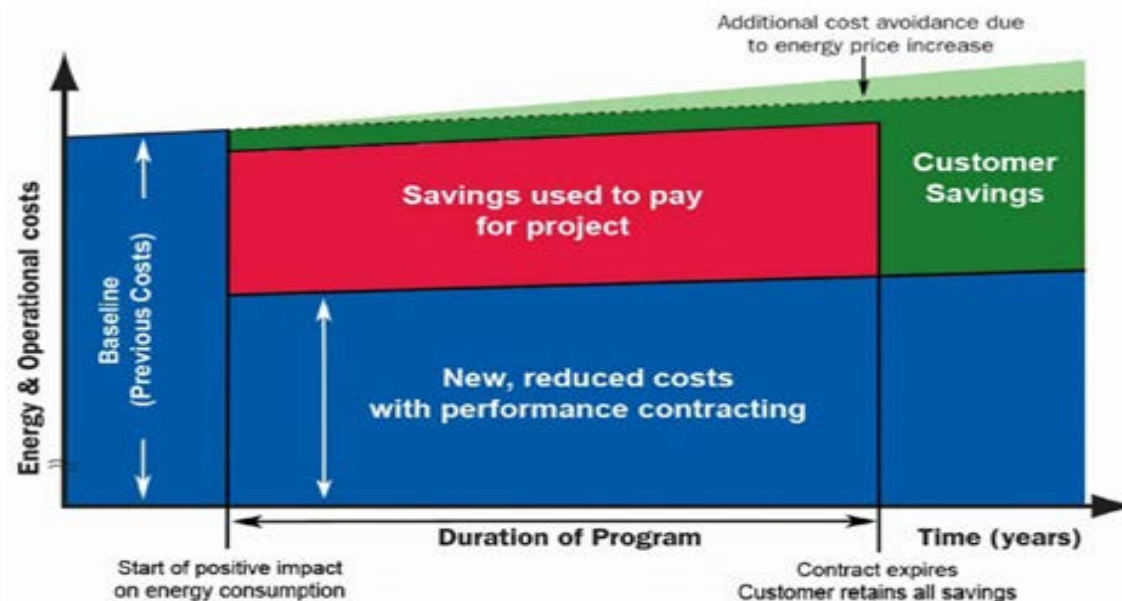
# Introduction to the Energy Performance Contracts

- EPC involves specialized private sector contractors –Energy Service Companies or ESCOs - undertaking and financing energy efficiency improvements in buildings of contracting authorities, where a reduction in energy usage is usually guaranteed.
- Energy performance contracting offers a number of advantages for public entities:
  - energy efficiency improvement investments are financed directly from cost savings
  - ESCO takes on the performance risks of the works and technology used
  - energy and cost savings are guaranteed by the ESCO
  - ESCO supports the long-term use of improved energy management solutions
  - ESCO supports the public sector building owner in finding the most suitable technical and financing solution.

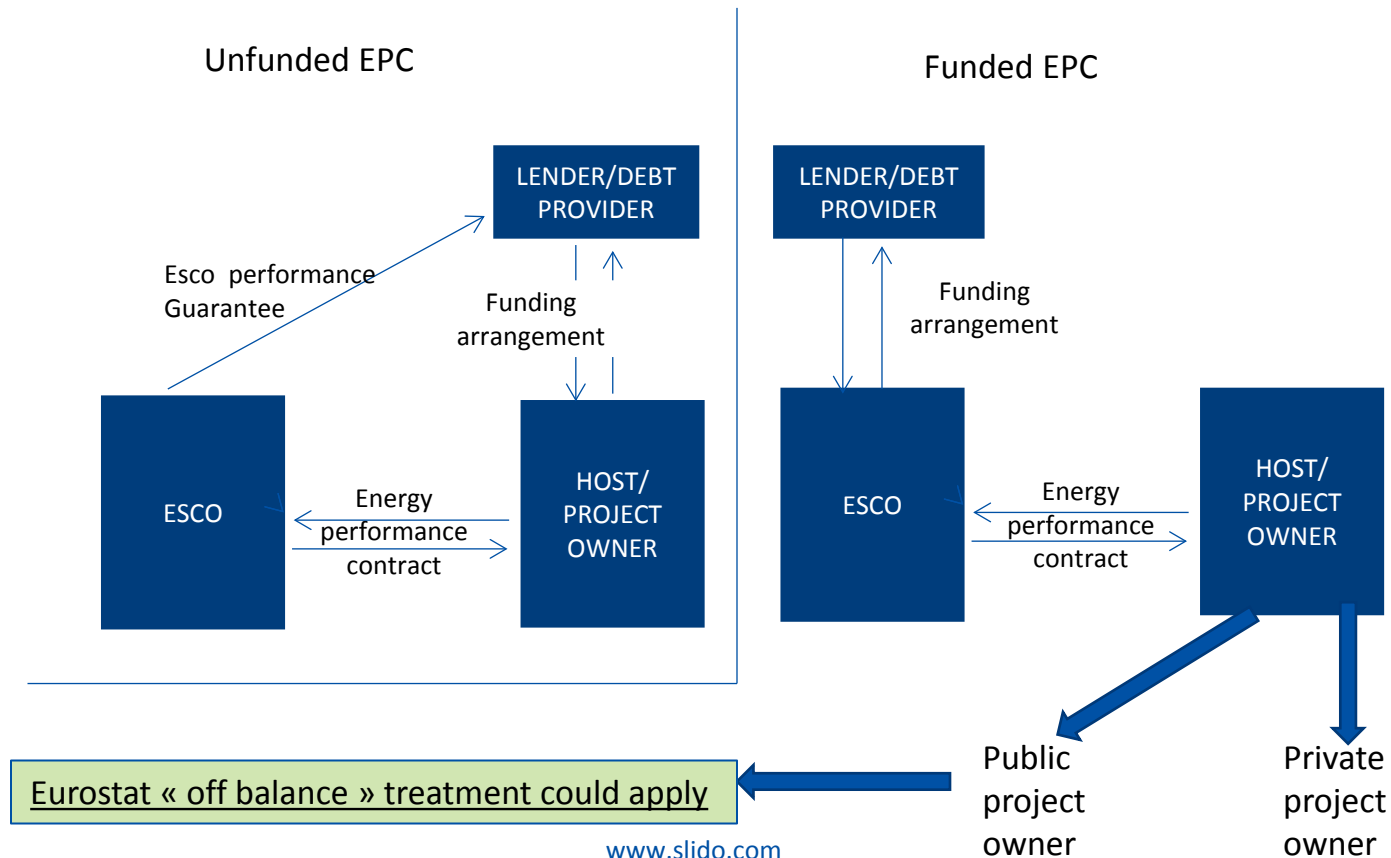
# Introduction to the Energy Performance Contracts

- Budget-neutral approach to performing building improvements that reduce energy use while increasing operational efficiency.
- Enables owners to implement cost-saving projects now, without capital budgets.
- Projected annual savings are guaranteed to meet finance payments.

## ESCO: the basics



# Energy Performance Contracts: Financing models



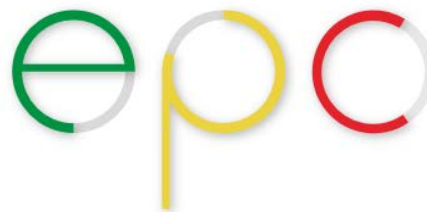
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## Practitioners Guide for EPC statistical treatment

- EIB Group, jointly with Eurostat, launched in May 2018 an accompanying practitioners' guide to help the market make the most of the possibilities now available.
- The guide is aimed primarily at public sector stakeholders, to give them greater understanding/clarity on how statistical rules are applied to EPC arrangements.
- It is expected that more use of EPC arrangements by public authorities, as a result of the clarification of their statistical treatment, could also contribute to foster energy efficiency investment activity in public buildings.
- By supporting both the public sector in preparing and procuring their projects in this way, and by helping to finance the private sector contractors to undertake the investments, EIB Group has a significant role to play in this regard.

eurostat 



A Guide to the Statistical Treatment of  
Energy Performance Contracts

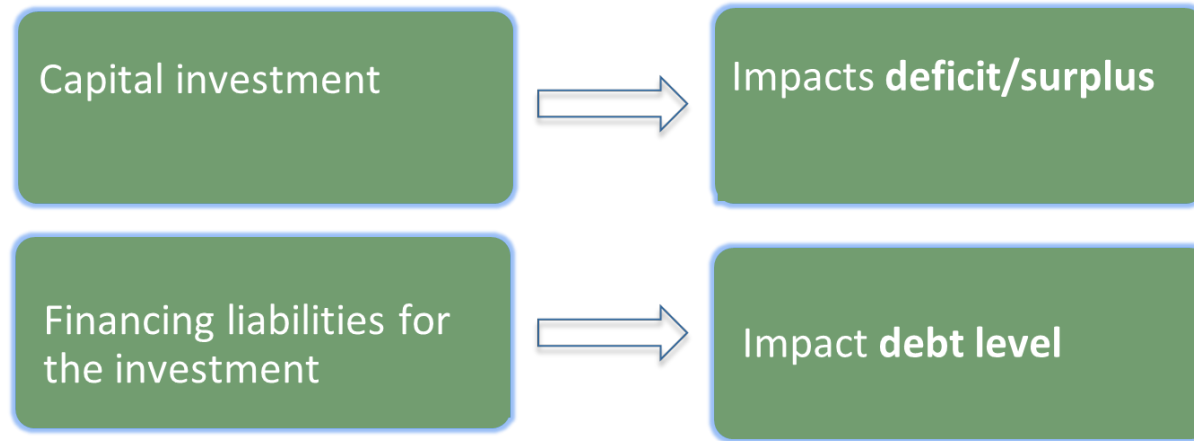
May 2018





# What do Eurostat's rules imply?

If an asset is “on balance sheet” for government:



If an asset is “off balance sheet” for government then government only records any regular payments for services over the long-term

Eurostat rules relate to **statistical treatment** - not to be confused with accounting rules/practices and budgeting

## About the Guide

- Based on existing rules (European System of Accounts - ESA10, Manual on Government Deficit and Debt, 2017 Guidance Note on EPC) it clarifies how they apply
- Explains Eurostat's interpretation and application of the rules and approach to assessing the statistical treatment
- Official Eurostat guidance and the reference point for Eurostat advice and decision on EPCs
- Can be used to assess future EPCs and/or reassess signed EPCs

## Using the Guide

- Aimed at being practical and user-friendly
  - Covers typical EPC provisions and structures
  - Captures market practice across the EU
  - As clear and precise as possible on how specific contract provisions affect the statistical treatment
- Does not deal with value for money or bankability
- Is detailed and technical and assumes a good working knowledge of EPCs

## Chapter 1: Introduction to the rules

- How the rules developed
- Purpose/principles behind the rules
- When to assess the statistical treatment of an EPC

Move on to chapter 2...

## Chapter 2: Is this an EPC arrangement?

Eurostat's definition of an EPC considers:

- Who are the **parties** involved?
- What type of **assets** are involved?
- **How long** is the contract for?
- What **services** are included?
- What **third party revenues** do?

If yes, move on to chapter 3...

## Chapter 3: The EPC provisions

<b>Theme 1</b> – Legal ownership and access rights	<b>Theme 9</b> – Insurance
<b>Theme 2</b> – Specification, design, construction and installation of the EPC assets	<b>Theme 10</b> – Warranties and indemnities
<b>Theme 3</b> – Maintenance and operation of the EPC assets	<b>Theme 11</b> – Early termination of the EPC
<b>Theme 4</b> – The Guaranteed Savings	<b>Theme 12</b> – Compensation on early termination of the EPC
<b>Theme 5</b> – The payment mechanism	<b>Theme 13</b> – Expiry of the EPC
<b>Theme 6</b> – Compensation, relief and force majeure events	<b>Theme 14</b> – Financing arrangements
<b>Theme 7</b> – Changes to the EPC	<b>Theme 15</b> – Government influence
<b>Theme 8</b> – Changes in law	<b>Theme 16</b> – Miscellaneous provisions

Key contract provisions and typical EU approaches to EPCs described Theme by Theme

## Chapter 3: The EPC provisions

Eurostat's comment:

- **does not influence** the statistical treatment
- **does influence** the statistical treatment and is:
  - MODERATE
  - HIGH
  - VERY HIGH
  - ON BALANCE SHEET FOR GOVERNMENT

[Move on to chapter 4...](#)

## Chapter 4: Concluding the assessment

**Step 1:** identify issues that have an influence on the statistical treatment

- No influential issues – **OFF BALANCE SHEET**
- Influential (ON BALANCE SHEET) issues – **ON BALANCE SHEET**
- Influential (VERY HIGH/HIGH/MODERATE) issues – **MOVE TO STEP 2**

**Step 2:** analyse the significance of the issues identified

- **Project specific** analysis

**Step 3:** reaching a conclusion

- Summing up number and weighting of issues



## Chapter 3: Selected Themes

## Theme 4

# The 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)

## Theme 5

# The payment mechanism

- Principle of proportionality (% payment relates to % savings achieved)
- No cap on Partner's liability for savings shortfalls
- Authority cannot take more than 1/3 share of savings excesses

## Theme 14

## Financing arrangements

- Is government participating in the financing of the EPC investment? Impact depends on % provided.
- Is there are forfeiting arrangement in place? Does it shift risk back to the government?
- Annex 2 provides examples to illustrate impact of government and EU financing

## Annex 2: Government and EU financing in EPC

- **Government financing** in form of grants or financial instruments (guarantees, loans)
  - $\geq 50\%$  → ON BALANCE SHEET
  - $1/3$  but  $< 50\%$  VERY HIGH importance
  - $10\%$  but  $\leq 1/3$  HIGH importance
  - $\leq 10\%$  MODERATE importance
- **EU financing** is not counted as government financing
- **ESIF programme** support to be divided into EU financing and government financing

## EIB group steps forwards : Practitioners Guide for EPC.

- Follow up with a series of events and workshops for public authorities, ESCOs, financial institutions and other stakeholders covering all EIB services addressing :
  - Awareness raising events for public and private sector stakeholders (e.g. Ministries of Finance and Energy, procuring authorities, ESCOs and financial institutions).
  - The design of dedicated financial instruments for the sector. (see Smart Finance for Smart Building initiative)
  - As well as other aspects of EPC implementation, such as a detailed scoping of national/regional market demand, and the need for detailed TA support in preparing projects (utilising EIAH, JASPERS and/or ELENA programme support)

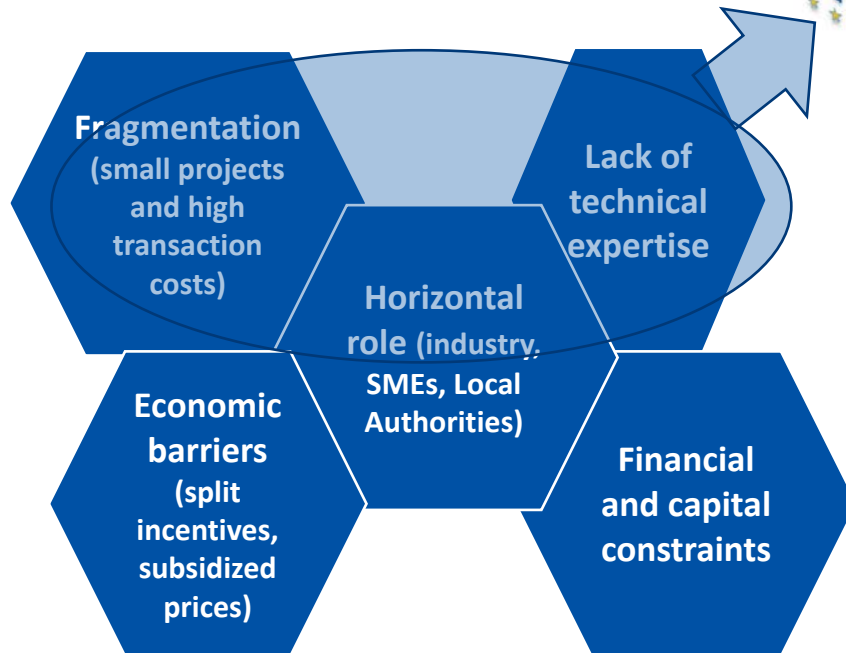
# EIB additional support to implement EPC projects

# ELENA TECHNICAL ASSISTANCE

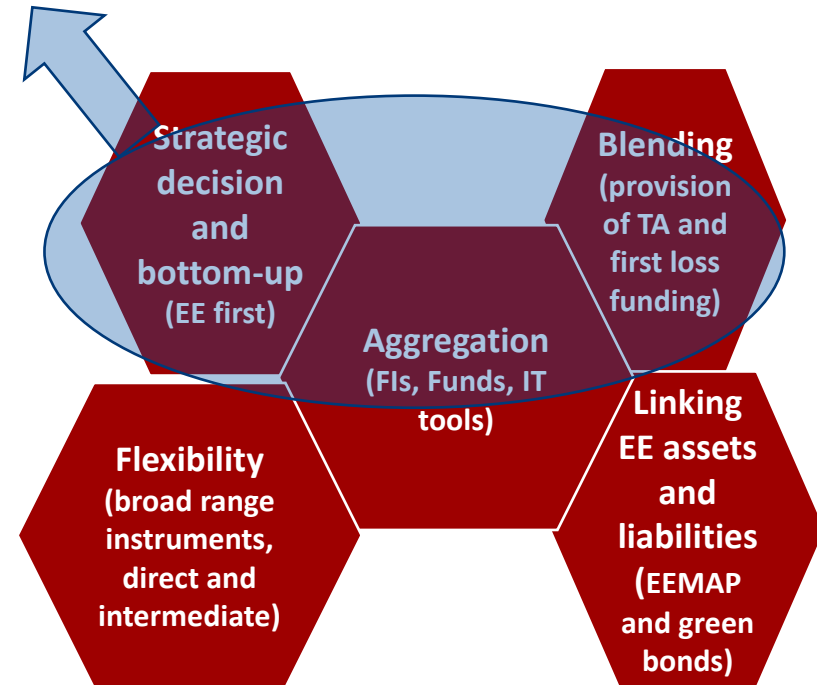


# Unlocking investments in Energy Efficiency

## CHALLENGES



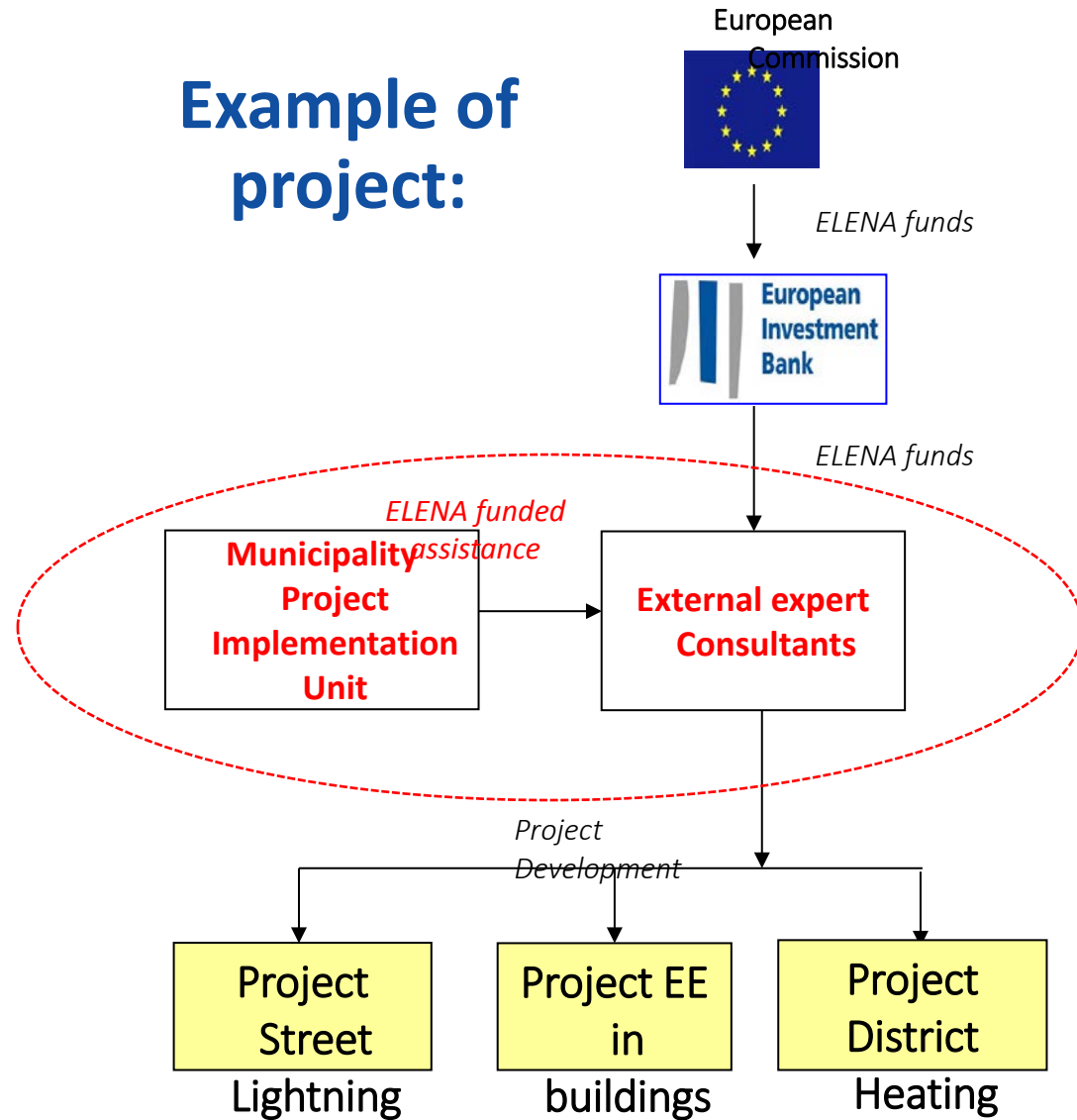
## EIB's response



ELENA Support for preparation of investments in energy efficiency, building integrated renewables, district heating and innovative transport projects

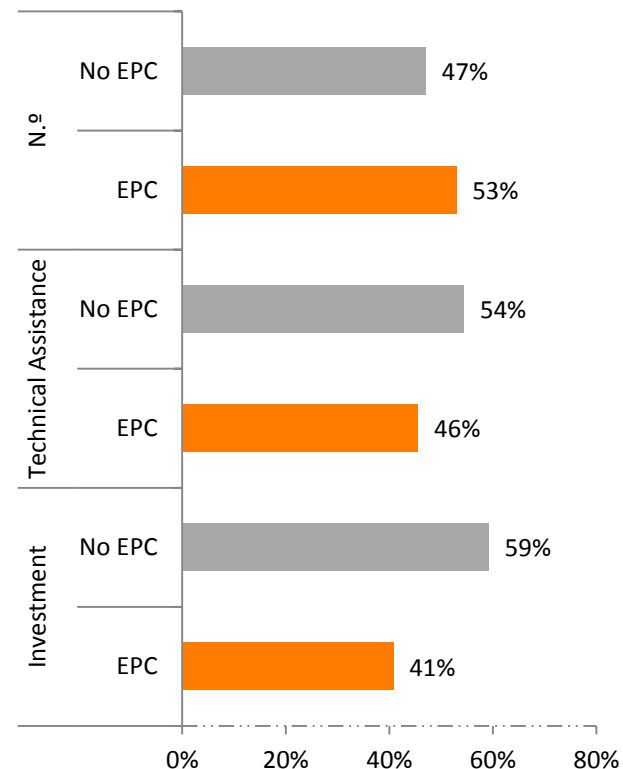
- Technical Support
  - ELENA grant used to assist in project preparation (e.g external expertise, feasibility studies, energy audits etc)
- Financial Support
  - ELENA will fund up to 90% of the costs (with 10% provided by applicant)
- Allocated on a first come, first served basis
  - No calls or competitions
- Public and Private sector, including Financial Intermediaries

## Example of project:



# ELENA EPC related supported projects

- Total of 68 projects supported:
  - 24 projects completed;
  - 44 ongoing projects;
- 36 projects include ESCO/EPCs (public sector);
- Expected Investment: EUR 4.8bn;
- Expected TA: EUR 120m



# THANK YOU !

More information at:

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