CONCERTED ACTION
ENERGY EFFICIENCY
DIRECTIVE

Best practice in leveraging market finance through public funds

Executive Summary 4.3

Core Theme 4
Working Group 3
Andy Deacon - Energy Saving Trust, UK

Krisztina Ligetvári - ÉMI Non-profit Lld., HU
Simon Scicluna- Malta Resources Authority, MT

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1 Summary

Previous Working Group reports have identified that stringent EU purchasing rules can make it very complicated for public bodies to work with energy performance contracts (EPC) / energy services companies (ESCOs) and that there are implications for financing models relating to accounting and statistical treatment of funding for the renovation of public sector buildings (e.g. on/off general government's balance sheet assets vs. services as a basis for contracting vs. resource budgets). Our work has also identified that, with on/off balance sheet accounting, Member States (MS) are not sufficiently aware of some of the key issues, emphasising the need for more information on the subject.

Table 1: Overview of topic

Topic	Issue	Outcomes	Next steps
Leveraging market finance through public funds	Issues of public debt and the implementation of national and EU accounting rules (a number of references to ESA95) Concern about the use of EU funds (structural funds were specifically mentioned) on ESCO projects Difficulties in preparing an accurate emissions baseline A feeling that transactional costs for smaller projects were high A lack of trust between the public sector and ESCOs, meaning that risk sharing on projects was not always handled effectively	Energy efficiency retrofits, unlike other investments, do not produce direct income streams; rather they create avoided costs Energy savings and associated cost savings are therefore often not considered a tangible revenue stream by financial institutions	To combine public finance with market-based financing solutions

1.1 Nature of the Problem

- Since costs for renovations may be recovered through ongoing independently audited and verified energy bill savings, EPC/ESCO models are of interest in a time of restricted public sector budgets.
- There are a variety of risk sharing and contractual models whereby ownership of assets and finance for the project may remain on or off the public sector balance sheet.
- Public expenditure will usually be governed by national accounting rules, procedures and regulations. These in turn are regulated by the European system of national and regional accounts, abbreviated as ESA95, which provides a system to ensure that individual Member State accounts are comparable.
- The on/off balance sheet treatment of ESCO and other energy efficiency finance may therefore be restricted by a desire to limit levels of recorded public sector spending and borrowing.

1.2 Challenges/Barriers in MS

- Issues of public debt and the implementation of national and EU accounting rules (a number of references to ESA95);
- Concern about the use of EU funds on ESCO projects (structural funds were specifically mentioned);
- Difficulties in preparing an accurate emissions baseline ;
- A feeling that transactional costs for smaller projects were high;
- A lack of trust between the public sector and ESCO companies, meaning that risk sharing on projects was not always handled effectively.

2 Recommendations/Conclusions

If energy efficiency improvements are to happen, there is a need for financing from a wide range of resources. European Union and national funds - as well as private capital - are available to start an investment; however, there is still a mismatch between the demand and offer sides.

Energy efficiency retrofits, unlike other investments, do not produce direct income streams; rather they create avoided costs. Energy savings and associated cost savings are therefore often not considered a tangible revenue stream by financial institutions. This is mainly because of the uncertainty surrounding the scale of the actual savings that can be achieved. Inappropriate design, implementation and operation of the building and its equipment (including potential 'comfort taking' by occupants) can all influence the final savings realised in practice.

Bank financing is critical for developing energy efficiency projects at scale and Member States' ability to reach carbon reduction targets will in part be reliant on the deployment of private sector as well as public finance in the right packages and at the right scale.

Many banks have realised the opportunity of energy efficiency (EE) financing and have developed specific packages for households and companies to support EE (and renewable energy and broader green) investments or to complement (to cover own contribution, match funding) national EE programmes.

Involvement of bank financing in energy efficiency will gain even more attention in the future across all sectors. Governments should seek greater involvement of banks.

There is an important role for ESCOs in renovating public sector buildings and energy performance contracting.

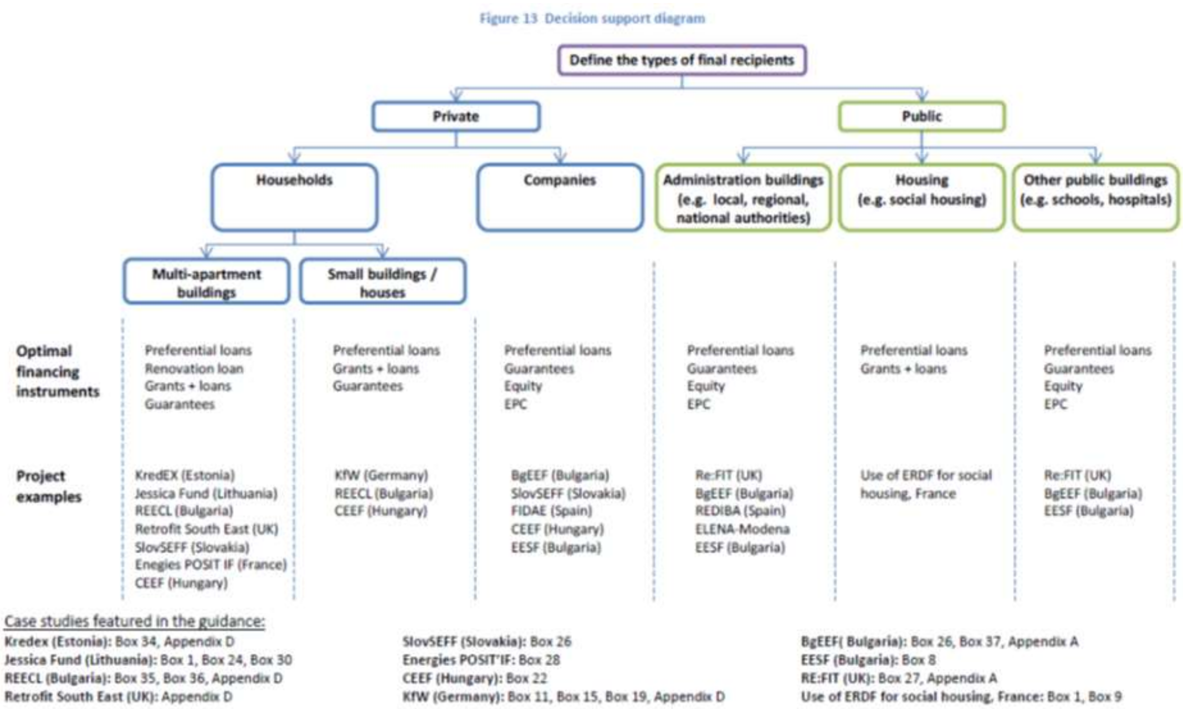
When planning a policy or a programme, it is beneficial to combine funding sources with other instruments (e.g. regulations, tax schemes, enhancing private capital, etc.). Public finance is often needed to kickstart the EE market; however, the goal is to shift towards market-based financing solutions. The exact structure of these and different approaches to controlling or outsourcing both delivery and risk are important considerations. In many cases, decisions will rely on the involvement of finance managers as well as energy efficiency experts. It was clear from discussions at the CA EED Plenary Meeting in Athens (March 2014) that further awareness raising of the options available and institutional capacity building in the public and private sectors will be needed if increasing amounts of finance are to be diverted into energy efficiency projects.

3 Practical Examples

Guidance on Financing the Energy Renovation of Buildings with Cohesion Policy Funding

- In February 2014, the European Commission published guidance on financing the energy renovation of buildings with cohesion policy funding[1];
- The guidance document aims to help Managing Authorities (MAs) in the Member States plan and deploy Sustainable Energy (SE) investments in buildings within Operational Programmes;
- It provides a list of good practice approaches and case studies and informs MAs about European requirements on buildings and energy efficiency;
- It also explores the different financing mechanisms that MAs can use to support sustainable energy projects within an Operational Programme.

Figure 1: Decision Support Diagram for sustainable energy financing



This decision support diagram shows the optimum type of financing instrument for each type of final beneficiary and points to existing case studies of how these have been applied in Europe.

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[1] http://ec.europa.eu/energy/efficiency/studies/doc/2014_guidance_energy_renovation_buildings.pdf

UK Experience of the Use of Public Finances for Energy Efficiency

In the UK, the Scottish Futures Trust has been investigating possible approaches to Energy Performance Contracting within the public sector. As part of this work, an analysis has been undertaken of potential approaches to Energy Performance Contracting which may be revenue funded:

- Part A - Commercial and Accounting Impacts Overview - provides a summary of the approaches which may be revenue funded and which types of energy performance measures may be capable of being delivered under these approaches[2]
- Part B - Technical Guidance on Commercial and Accounting Impacts - sets out the accounting standards and budgeting rules more fully as they would apply to energy efficiency structures[3].

Poland KAPE - Actions undertaken to promote EPC[4]

- EPC promotion - **Transparense project:**
    - Preparation of a Code of conduct which sets a point of reference for fair and good quality EPC business

      The idea of the Code of Conduct:
        - Fundamental principles for EPC
        - Compliance with the Code of Conduct provides a guarantee of the quality of EPC

- **ESCO Club** - informal platform:
  To promote ESCOs by communicating with decision makers, knowledge exchange, opening the market for private energy saving services in the public sector.
- **PESCO project**
  Addressing the need to support the development of the ESCO market in Poland.

  Why does it not work? "Negative" example helps others to avoid the same mistakes:
    - The Minister of Finance and Main Statistical Office of Poland do not recognise EPC as safe and sound for municipal debt, fully in line with its own decrees and not with Eurostat definition of public debt (that would not have an impact on public debt and does not create economic effects similar to loans)
    - The banking sector needs to see a pipeline of projects to create a special product for ESCOs, but, without the special financing line, it is difficult to build a large scale pipeline (squaring the circle)
    - The European Union *de minimis* "state aid" regulation allows for aid of up to €200,000 to be provided from public funds to any business enterprise over a rolling three-year period (legal problem with financing ESCO project by National Fund for Environmental Protection and Water Management).

European Commission - State Aid rules as relevant for energy efficiency

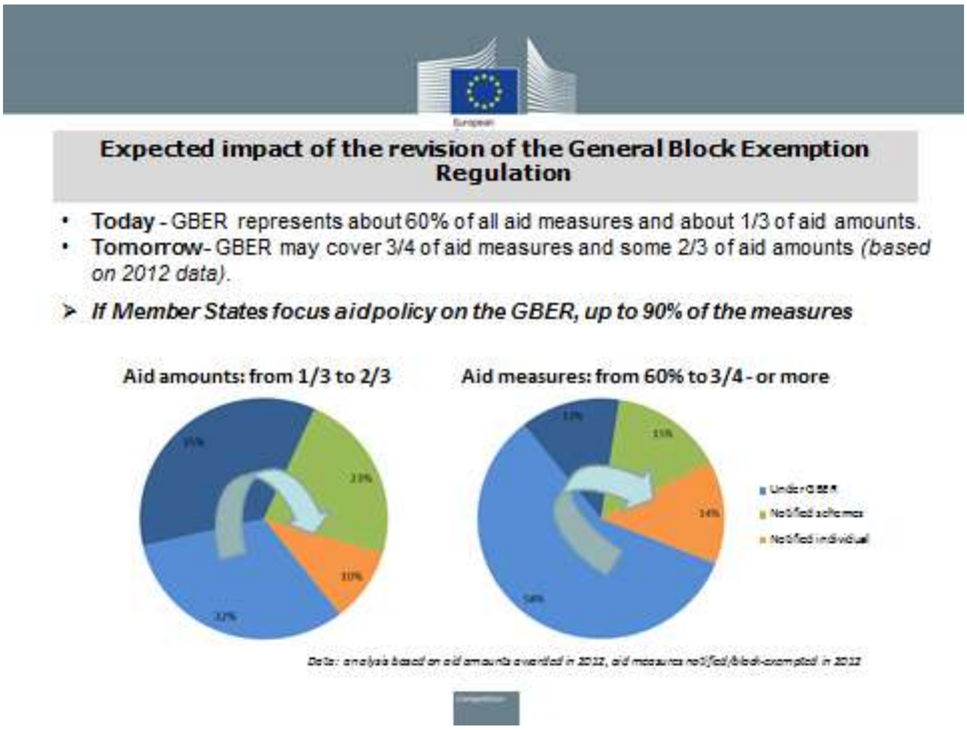
- State Aid for Environmental Protection and Energy - aid can be granted on the basis of:
    - Guidelines (EAG, new EEAG)
    - Directly under the Treaty
    - General Block Exemption Regulation (GBER) – new:
        - extension and simplification
        - six new categories
        - new forms of exempted aid: risk finance aid, research infrastructures, start-up aid, energy efficiency projects, aid for renewables, employment aid to the youngest, aid for outermost regions, aid urban development schemes

  (Replaces the current GBER: Commission Regulation 800/2008/EC)

- GBER: Aid for Environmental Protection:

[2] http://www.scottishfuturestrust.org.uk/publications/sft-energy-efficiancy-measures-commercial-and-accounting-overview-part-a/
[3] http://www.scottishfuturestrust.org.uk/publications/sft-energy-efficiency-measures-technical-guidance-and-accounting-impacts-pa/
[4] http://www.enr-network.org/the-polish-national-energy-conservation-agency.html

- Investment aid enabling undertakings to go beyond Union standards for environmental protection or increase the level of environmental protection in the absence of Union standards
- Investment aid for early adaptation to future Union standards
- Investment aid for energy saving measures
- Aid for energy efficiency projects (buildings)
- Investment aid for high-efficiency cogeneration
- Aid in the form of reductions in environmental taxes under Directive 2003/96/EC
- Investment aid for energy efficient district heating and cooling
- Aid for environmental studies, including energy audits



Other Examples

- During discussion, reference was also made to the Intelligent Energy Europe funded Transparense project: http://www.transparense.eu/be/be-home/be-welcome-to-transparense-project; and
- The European Energy Services Initiative (EESI): http://www.european-energy-service-initiative.net/.

Legal Disclaimer

The Concerted Action for the Energy Efficiency Directive (CA EED) was launched by Intelligent Energy Europe (IEE) in spring 2013 to provide a structured framework for the exchange of information between the 29 Member States during their implementation of the Energy Efficiency Directive (EED).

For further information please visit **www.eed-ca.eu** or contact the CA EED Coordinator Lucinda Maclagan at **lucinda.maclagan@rvo.nl**

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