



Financing ESCO projects through EnPC

Main findings from the Romanian ESCO Working Group ***SEIF Second Roundtable conclusions from 6th June 2019***

Workshop – BUCHAREST
ANRE – Headquarter
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SEIF Second Roundtable conclusions, from June 6th , 2019

- On **June 6th 2019**, the European Commission, in partnership with the Ministry of Energy, the Ministry of Regional Development and Public Administration, the Ministry of European Funds of Romania, the Romanian Energy Regulatory Authority (ANRE) and the UN Environment Finance Initiative, organized a round table in Bucharest on financing energy efficiency in Romania;
- The objective of the National Roundtable was to initiate a dialogue between key Romanian stakeholders on **how to improve access to finance energy efficiency** investments, and to identify common objectives and potential improvements to be made in the current policy framework and business practices.
- The main topics of discussions on the roundtable:
 - How to support homeowners for home energy renovation;
 - Emerging practice of green mortgages – how to make energy efficiency more appealing for financing;
 - How to increase the renovation rates for public buildings;

SEIF Second Roundtable conclusions, from 6th June 2019

- **Topic session 1: Integrated home renovation services**
 - ✓ One-Stop-Shops with a single point of entry for end-users = a good mechanism to facilitate implementation of energy efficiency measures in the residential sector.
- **Topic Session 2: De-risking energy efficiency investments**
 - ✓ There is a continuous need for cooperation between the various stakeholders from the energy sector and the financial sector;
 - ✓ The promotion of energy efficiency should be based on replicating the best practice models and results rather than presenting general benefits;
 - ✓ It is important to develop guarantee schemes and standardized products, as well as technical assistance programmes involving experts with the required expertise to minimize risks;
 - ✓ European Funds should be a booster to leverage private finance (related to more effective use of public funding)

SEIF Second Roundtable conclusions, from 6th June 2019

- **Topic session 3: Energy renovation of public buildings**

- ✓ A national task force is needed to coordinate all the working groups that exist at the decision level, to promote energy efficiency in public buildings;
- ✓ The national strategy should be aligned with the local strategies. The knowledge and experience at the local level should be considered;
- ✓ The National strategy should be followed by a funded Action Plan;
- ✓ There is a general lack of valid data for credible project documentation and monitoring and also in relation to the preparation of the National plan.
- ✓ Proposals were raised about decreasing the co-funding part for small and medium sized municipalities when using the structural funds;
- ✓ There is a need to design a standard EnPC model for public buildings;
- ✓ Clarification of EPC Guide and ESCO access to finance.

Main findings from the Romanian ESCO Working Group

- In **May 2018**, started the Romanian ESCO Working Group (the ESCO WG), representing different stakeholders. It was an initiative of the ANRE - **Department of Energy Efficiency**
- The main objective of the ESCO WG was to achieve a draft **Energy Services Contract (EnPC)** harmonized with the market realities and with the current legislative context.
- The activities were focused on:
 - Providing a discussion document reflecting the form of an Energy Performance Contract, harmonized with the Guide on the Statistical Treatment of EnPC, submitted by Eurostat and the EIB, on 8th May 2018;
 - Issuing an analysis from the accounting perspective over the EnPC;
 - Analysis of the Eurostat and the EIB Guide on the statistical treatment of energy performance contracts;
 - Presentation for dissemination of a proposed scheme for accessing different funds;
 - Discussions initiated with the representatives of the EIB, EBRD and JASPERS on the possibility of receiving technical assistance, respectively, on how to access the existing financing lines for energy services projects

The role of the EIB in the approaches undertaken by the GL ESCO members

In order to overcome the existing national barriers to contracting energy performance and, in order to have access to the expertise of the representatives of relevant European institutions, in September 2018, ANRE has invited at the ESCO's Working Group discussions, the representatives of the **European Investment Bank (EIB)** and **JASPERS**. The main conclusions were the following:

- ✓ It was highlighted the need to finalize the discussions on the EnPC draft contract (harmonized with the rules in the Guide submitted by the EIB and Eurostat, in May 2018) and implicitly, to obtain a final version for the submission of this format to the EIB, in order to request technical assistance in its implementation;
- ✓ To continue the practical discussions on the EIB/JASPERS support to Romania, in terms of obtaining an EnPC contract format, respectively, the need of clarifying the necessary framework for the operation of ESCO companies in Romania;
- ✓ The need to prepare, at the level of the Working Group, a scheme for implementing the future EnPC Contract.

Barriers identified in the implementation of EnPC, debated within the ESCO WG:

- **The legislative framework, including rules on public procurement**
 - Lack of schemes and/or ESCO certification standards, valid for all EU Member States;
 - Contracting energy performance could be subject to the same authorization procedure as other debt instruments;
 - Controversial interpretation of legislation (non-acceptance of the ESCO concept by financiers);
 - Barriers related to public procurement procedures (e.g. obtaining the CAIL approval)
- **Low and fluctuating energy prices**
- **Difficult access to funding**
- **Technical risks perceived as high**
 - Competition between energy efficiency investments and core business investments;
 - Avoiding outsourcing energy management by local administrations

Barriers identified in the implementation of EnPC, debated within the ESCO WG (2):

➤ **General mistrust, based on the lack of standardization**

- Offers of ESCO services - non-homogeneous;
- Lack of competition on the ESCO market;
- Unclear definitions and poor contracts;
- Non-standardized measurements and checks - IPMVP is not known or does not apply;
- Complex contract and non(yet)-standardized.

➤ **Market and partnership issues**

- Lack of trust on the part of the beneficiaries;
- Lack of functional partnerships between ESCO and sub-contractors;
- Lack of entities to act as "facilitators";
- Negative examples of failed projects.

MFP response (July 2018) regarding ANRE's request for a point of view on EnPC:

1. "A first stage of discussions with specialists from the relevant ministries (including ANAP) is needed: structuring, phasing out and establishing the applicable legal framework";
2. "Identification of the main legislative / administrative barriers to the implementation of EnPC in the public sector; establishing legal solutions for removing barriers ";
3. "Continuation of discussions on EnPC draft contract".

Punctual observations:

- Presentation of the necessary steps to be taken by the local public authorities, in order to conclude the EnPC;
- The contract could be assigned on the basis of the Public Procurement Law (L.91 / 2016, L.99 / 2016) or under the Concessions Law (L.100 / 2016);
- Projects could be classified as PPP projects;
- The CAIL approval must be obtained prior to the conclusion the EnPC;
- Harmonization the legal framework applicable to EnPC with the EU methodology on the statistical treatment of this type of contract, according to the Eurostat Guide.

Main findings from the Romanian ESCO Working Group

The Working Group has decided that, in a first phase, the EnPC model for the rehabilitation of Public Lighting Systems, to be approached.

Pro arguments:

- The international experience regarding the successful implementation of contracting energy performance, with priority, for public lighting;
 - The rehabilitation projects for public lighting systems = are less complex;
 - The high potential for energy savings ($> 40\%$);
 - Payback period of investment – within a reasonable time ($< 8...10$ years);
 - The own contributions from the ATU – which are not always necessary or being low ($< 10\%$);
 - The energy efficiency measures that can be implemented – are predictable
- **Based on the experience gained, the Energy Performance Contracting model could be extrapolated for public buildings, under a second phase**

Next steps:

- The involvement of the associations of localities (cities, municipalities) in order to set up an entity which will bring together the representatives of the city halls interested in contracting energy performance;
- The existence of a large number of ATUs involves different situations, which requires a flexible framework that can respond to multiple scenarios;
- Authorization of ESCOs = is it the case ?;
- The Contract Monitoring Committee - structure, attributions = to be defined;
- Terms used in the Contract: clear definitions, in accordance with the legislation in force;
- Determining the legal implications of some contract provisions. Contract formulations should be, as far as possible, in accordance with the existing legal framework;
- Clarifying the legal aspects of the elements of the Contract, in order to avoid the amendment of a large number of normative acts;
- Elaboration of the Action Program, by stages, for the actors involved: ATUs, ESCO, authorities;
- Completion of the Contract Framework, including annexes and its promotion in a normative Act;
- Receiving a possible external support/cooperation for preparing/completing the EnPC Framework model



Romanian Energy Regulatory Authority

Energy Efficiency Department



Thank you for attention!

**Romanian Energy Regulatory Authority
Energy Efficiency Department**



Phone: +4 021 32 78 101

Fax: +4 021 31 24 365

E-mail: anre@anre.ro;
info.eficienta@anre.ro



Address: Constantin Nacu Street, no. 3, District 2,
Postal Code: 020995, Bucharest