

EIB support to the ESCOs/EPCs market

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Introduction

According to the JRC, the EPC market in Europe is not sufficiently developed, mainly because of the following factors:

- **Mistrust from the (potential) client:** Lack of trust usually originated from inhomogeneous ESCO offers in the market, lack of competition, lack of experience of clients, ESCOs and financial institutions...;
- **Information and awareness:** The absence of best practice examples and their positive impact...;
- **Inexperience of actors:** The lack of technical knowledge, handling of technical risks as well as lack of experience in procurement...;
- **Ambiguities in the legislative framework** and lack of financial support;
- **Market-size and transaction costs:** Small scale projects are not compatible with energy performance contracting;

[Energy Service Market in the EU, 2019](#)

Introduction

The Commission recently adopted a Recommendation(*) on greater use of discrete energy efficiency investment through third party financing with a view to achieving the Community's energy objectives for 1995. This new financial mechanism involves the financing by an outside investment company of energy saving investments which are then paid off by using the cost savings achieved.

A new financial tool to add to the means of achieving Community energy objectives

One of the Community's main energy objectives for 1995 is to improve energy efficiency by at least 20 %. A recent evaluation of Member States' energy policies (see P 36) does, however, indicate that this objective is unlikely to be achieved unless new energy policy measures are taken.

Such measures would include the promotion of discrete investment in reducing energy costs. According to the Commission, such investment can be encouraged without subsidies from the public authorities. Third party financing would mobilize vast amounts of private capital for such investment. **In practical terms, this will mean that an energy service company (ESCO) will carry out an energy audit in a company and then suggest and make the investment required to achieve the energy savings identified in this audit. The ESCO will then be responsible for operating and maintaining the equipment introduced. The owner of the company concerned reimburses the cost incurred by the ESCO by using the income from the resultant cost savings.** When the contract ends, the user company can either renew the contract or buy the equipment unless the contract provides - more simply – for transfer of ownership.

Introduction

Reluctance to use the third party financing system

In the United States, the third party financing market has grown since the early 1980s with USD 350 million being invested in 1984, whereas penetration of this technique in Europe has been slow. This is due to a number of factors which include :

- a) the fact that this technique is not widely known,
- b) the fact that contracts tend to be complex,
- c) an insufficient number of companies operate in this area (there are less than ten ESCOs at the present time in the Community all of which are concentrated in a small number of Member States,
- d) the legislative and budgetary constraints which have in many cases prevented the public sector using this technique.

https://ec.europa.eu/commission/presscorner/detail/en/P_88_42, 29 March 1988

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European investment Bank – An overview

- EIB is based in Luxembourg and **owned by the 27 EU Member States**
- EIB is the **EU's long-term lending institution** – a public bank with objectives **driven by EU-policies** with priorities to promote European economic development and integration
- 4 **key areas**: innovation, SME, infrastructure, climate/environment
- EIB **finances itself** mainly **through bond issuance** on international capital markets
- **Core activities** include **lending, blending and advisory**



The European Investment Bank

At a glance (*)



The world's largest multilateral lender



Leading provider of climate finance



Governed by the 27 EU Member States

€ **94.9** billion

Financing in 2021

(*) Including the European Investment Fund

Our investment priorities (*)



INNOVATION
€ **16.7** billion



ENVIRONMENT
€ **14.3** billion



INFRASTRUCTURE
€ **13.7** billion



SMEs
€ **9.6** billion

EU Climate Bank objectives

€1 trillion

for climate action and the environment unlocked by 2030

50 %

of total financing to climate action and the environment by 2025

2020

fully aligned with the Paris agreement by the end of the year

EIB Cross-cutting objectives:

Climate Action : 51 %

Cohesion : 41.5 %

Climate Bank Roadmap

2019

Energy Lending Policy

- Defines eligibilities in the Energy sector
- Applies from 2020 (end 2021 for some fossil fuel projects)
- Midterm review in early 2022

2020

Climate Bank Roadmap

- Defines Paris alignment (PA) framework for all sectors
- **Projects eligible under the ELP are “supported”**
- Applies to operations with PIN approval from 2021

2021

Climate Action & ES



► The Energy Lending Policy defines Paris-alignment in the Energy sector

How EIB can assist: Lending, Blending, Advising

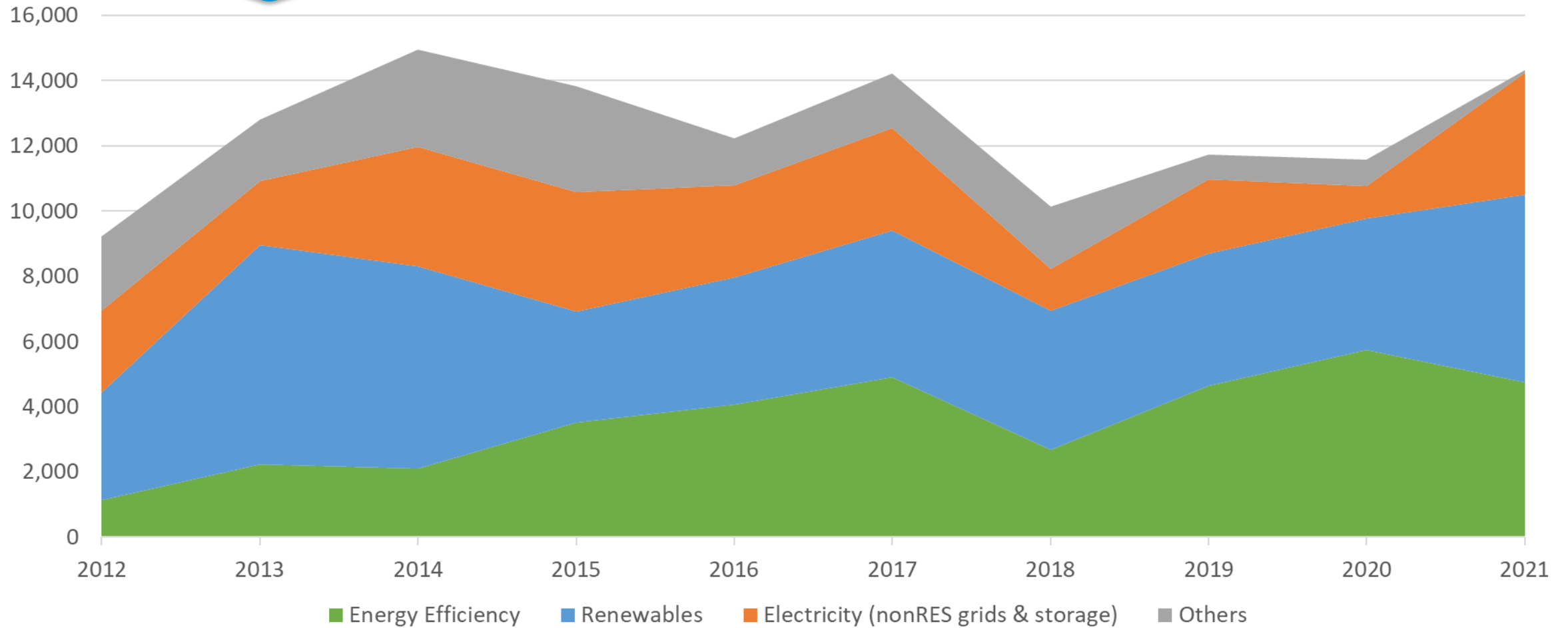
Loans/Funds

- Investment Loans (direct)
- Intermediated Loans, Promote Aggregation. Small and medium-scale projects (particularly to SMEs) via national and regional intermediary banks. Lending decision remains with the financial intermediary
- Investment Funds
- European Fund for Strategic Investment (EFSI)
- Dedicated schemes such as Private Finance for Energy Efficiency (PF4EE)
- Blending with ESIF

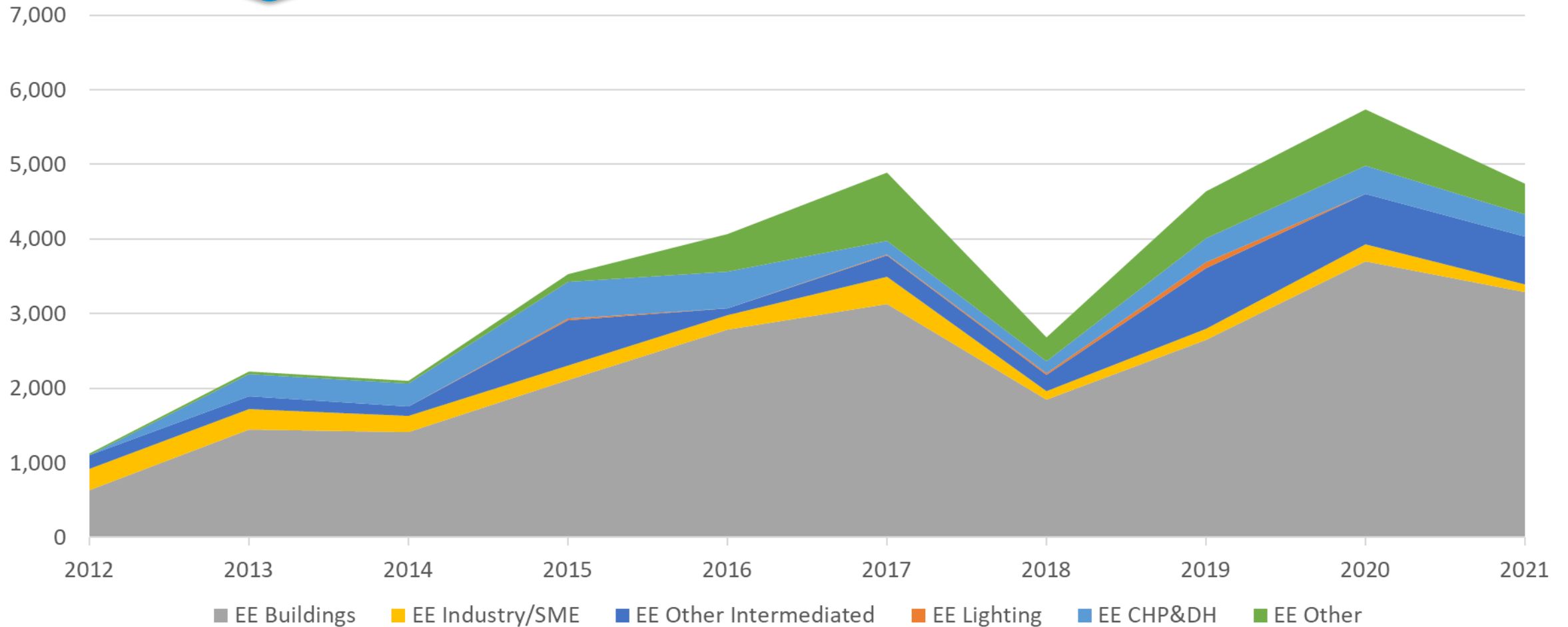
Technical Assistance / Advisory Services typically upstream, with or without links to operations.

- ELENA (European Local Energy Assistance)
- JASPERS (Joint Assistance to Support Projects in European Regions)
- EPEC (Support to public-private-partnerships)
- EIAH (European Investment Advisory Hub)

Energy Lending - 2012 to 2021



Lending to EE, per sector, from 2012 to 2021



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Lending

ESCO ENERGY EFFICIENCY SPAIN FL

Project Description:

The Framework Loan will co-finance energy efficiency and renewable energy investments in Spain by energy service companies (ESCO). The operation is targeted to energy efficiency improvements on the demand and supply side, in the public and private sector, including public buildings, street lighting and hospitals.

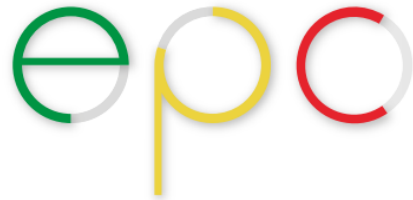
Proposed EIB finance

EUR 75 million

Total cost

EUR 200 million

Technical and financial advisory



A Guide to the Statistical Treatment of
Energy Performance Contracts

May 2018

eurostat 

- Development of practitioner's guide with Eurostat
- Developing guidance on the use of ESIF for EPC with European Commission - DG REGIO
- Review of the Slovak and Latvian EPC model contracts regarding balance sheet treatment
- Support to public real estate manager in developing an EPC based building renovation scheme in Latvia
- Financial analysis of street lighting project in Vilnius
- Market assessment and development a forfeiting guarantee scheme in the Czech Republic
- Project development assistance from ELENA for City of Ljubljana, City of Bratislava, Flanders, ...

ELENA Facility: Results Achieved



- EUR 248m disbursed and committed EU grant
- 142 ongoing and completed projects, mostly multi-sectoral
- € 8.1bn realized and expected investments
- Average leverage ratio: 33
- 25 countries (no projects in Malta, Cyprus and Bulgaria)
- Expected impacts: +/-4,900 GWh/y saved; RES generation 1,500 GWh/y and 1.9 million eq. t CO₂ emissions reductions
- Most of EU covered through support to diverse range of applicants,
 - small & large cities, regional and national entities, financial intermediaries, housing companies, private entities etc
- Support to project “aggregators”

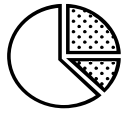
ELENA: support to energy performance contracts

ELENA EPC related Projects:

- 57 projects include ESCO/EPCs;
 - 35 projects completed;
 - 22 ongoing projects;
- Expected Investment: EUR 2.9 bn;
- Expected TA: EUR 96.4m;
- Expected Leverage Factor 34.1
- 17 countries.



General Rules



Minimum investment of **€30m**

Grant covers up to **90% of costs** related to **project development support**



Budget allocation: first come, first served; range of **€30m – €50m** per year



Required level of maturity: preparatory studies carried out and main decisions taken before ELENA support request (application should demonstrate high probability that project will be implemented)



Obligation of investment implementation - leverage factor required:

20 for sustainable energy projects

10 for residential buildings and transport



If the leverage not achieved: grant may be clawed back



Investment: from Final beneficiary (applicant) and/or others

Timeframe: 3-4 year implementation period

Sectors Supported



Buildings:

- Residential
- Non residential



District heating and/or cooling



Street lighting Traffic lighting



Urban public transport



Building integrated renewable energy sources



Smart grids

The ELENA projects are divided into 3 envelopes

Energy efficiency
projects



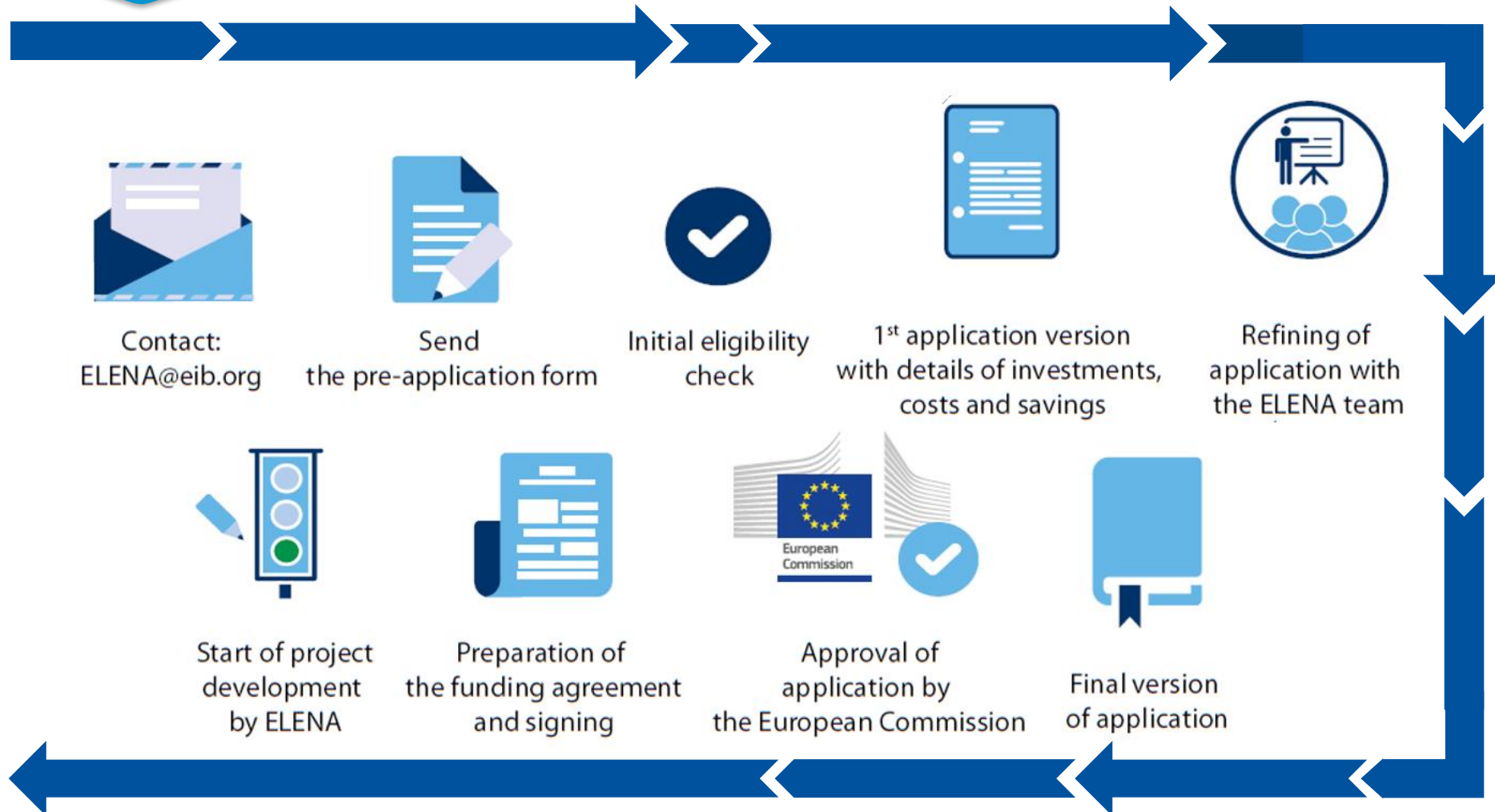
Transport
projects



Sustainable
residential



Application Process



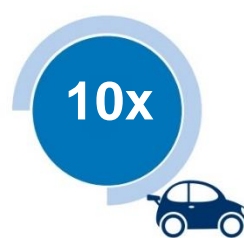
Leverage Factor

$$\text{LEVERAGE FACTOR} = \frac{\sum \text{Investments} \left[\text{Icons: house, snowflake, car, traffic light, solar panel, battery} \right]}{\text{TA grant } \text{€}}$$

Energy efficiency projects



Transport projects



Sustainable residential



ELENA: support to energy performance contracts

EPC in buildings:

Milano: supporting small municipalities by Province in preparation of “genuine” EPC

REFIT: Greater London Authority for EPC approach public buildings of London boroughs

City of Ljubljana

Municipal Energy Performance Initiative, Baden-Württemberg (KEA)

Renowabe: Boosting regional energy transition through EE and renewables in public buildings

EPC in street lighting

Several projects in Italy and Spain

Counties around City of Zagreb, managed by REGEA

City of Zagreb

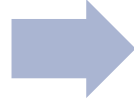
EPC Intracting

Berlin Energy Management Company

Typical ELENA support in an EPC

Preliminary Activities

- Asset identification and characterization,
- Energy Audits, feasibility studies
- Baseline definition
- Financial analysis
- Legal support, tender documents
- Financial support
- Project management
- Dissemination activities



Tender Phase

- Tender documents
- Tender management
- Tender evaluation
- Project management
- Dissemination activities



Contract Implementation

- Dissemination activities
- ?



Contract monitoring

- Ex-post assessment of energy savings
- Dissemination activities

Thanks for your attention

More information about ELENA:

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