



**European  
Investment  
Bank**

*The EU bank*



## **Content :**

**Eurostat new statistical rules: key impacts.**

Challenges and opportunities for the financing sector

Financial instruments and investment platforms models dedicated to EPC.

Advisory range of product and services supporting EPC market.

# Energy Performance Contract (EPC) in the public sector.

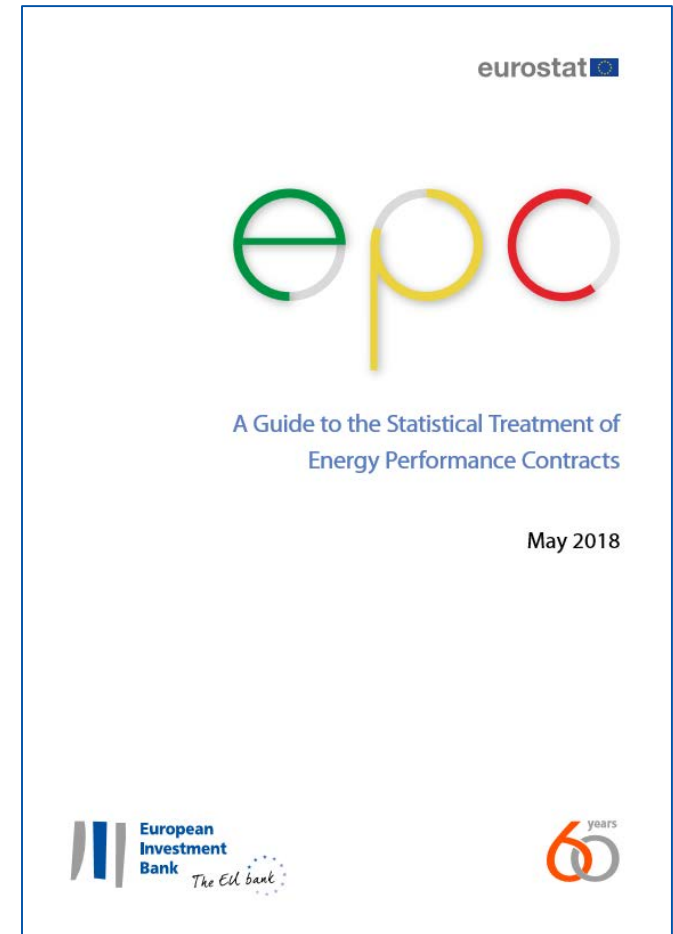
The potential of the EPC public market is currently not exploited due to :

- ▶ Lack of awareness, trust and track record of the public authorities
- ▶ Project development capacity of project promoters and complex procurement process.
- ▶ Statistical treatment of EPC which implies additional public debt and deficit.
- ▶ Access to finance for the ESCO (EPC providers)
- ▶ Inadequate investment grants schemes, no synergies with private financing.

As a consequence the EPC current market estimation is still quite limited

# Utilizing the EPC guide to support EPC market stimulation.

- The EPC guide:
- Is 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
- Is the 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



# When does the Guide apply?

- Who is contracting?
  - ✓ A “**government**” host (client) and “**non-government**” EPC provider (ESCO)
- What is the investment?
  - ✓ Assets **reduce energy consumption** (can include some renewable energy supply)
- How long is the contract for?
  - ✓ Minimum contract duration **8 years**
- Are services included?
  - ✓ Assets are **maintained** by the EPC provider
- How is the investment financed?
  - ✓ **Private finance** from the EPC provider

# Themes covered by Guide

<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

# How to use the Guide?

## Concluding the assessment

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

- No influential issues ⇒ **OFF BALANCE SHEET**
- ON BALANCE SHEET issues ⇒ **ON BALANCE SHEET**
- Influential (VERY HIGH/HIGH/MODERATE) issues ⇒ **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

# How to use the Guide?

## Concluding the assessment

### Step 3: reaching a conclusion

- Strong presumption of OFF BALANCE SHEET treatment if:

	VERY HIGH	HIGH	MODERATE
Issues identified	$\leq 1$	0	$\leq 2$
	0	$\leq 2$	$\leq 1$
	0	$\leq 1$	$\leq 4$
	0	0	$\leq 7$

- If thresholds are not met, further analysis may be undertaken and will include assessing the **Authority's control of the asset**



# Selected Themes from the Guide

## Theme 4

### Guaranteed savings

- Guaranteed **savings must exceed all government payments**
- Savings must be derived from a **reduction in energy consumption** (other energy related savings and revenues can also count)

## Theme 5

### Payment mechanism

- **Proportionality** between payment and savings
- EPC provider **fully liable** for savings shortfalls
- Excess **savings can be shared** (up to 1/3 for government)

# Selected Themes from the Guide

## Theme 14

### Financing arrangements

- **Government financing** (grants, loans, guarantees) has an impact on balance sheet treatment:
  - ▶  **$\geq 50\%$  → ON BALANCE SHEET**
  - ▶  **$< 50\%$  → MODERATE, HIGH OR VERY HIGH impact**
- **EU financing** is neutral in assessing balance sheet assessment
- Is there a **forfeiting** arrangement in place?

## Content :

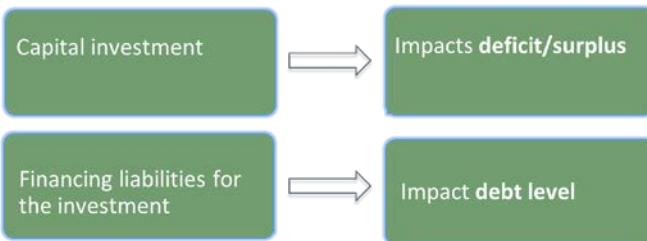
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# What do Eurostat's rules imply?



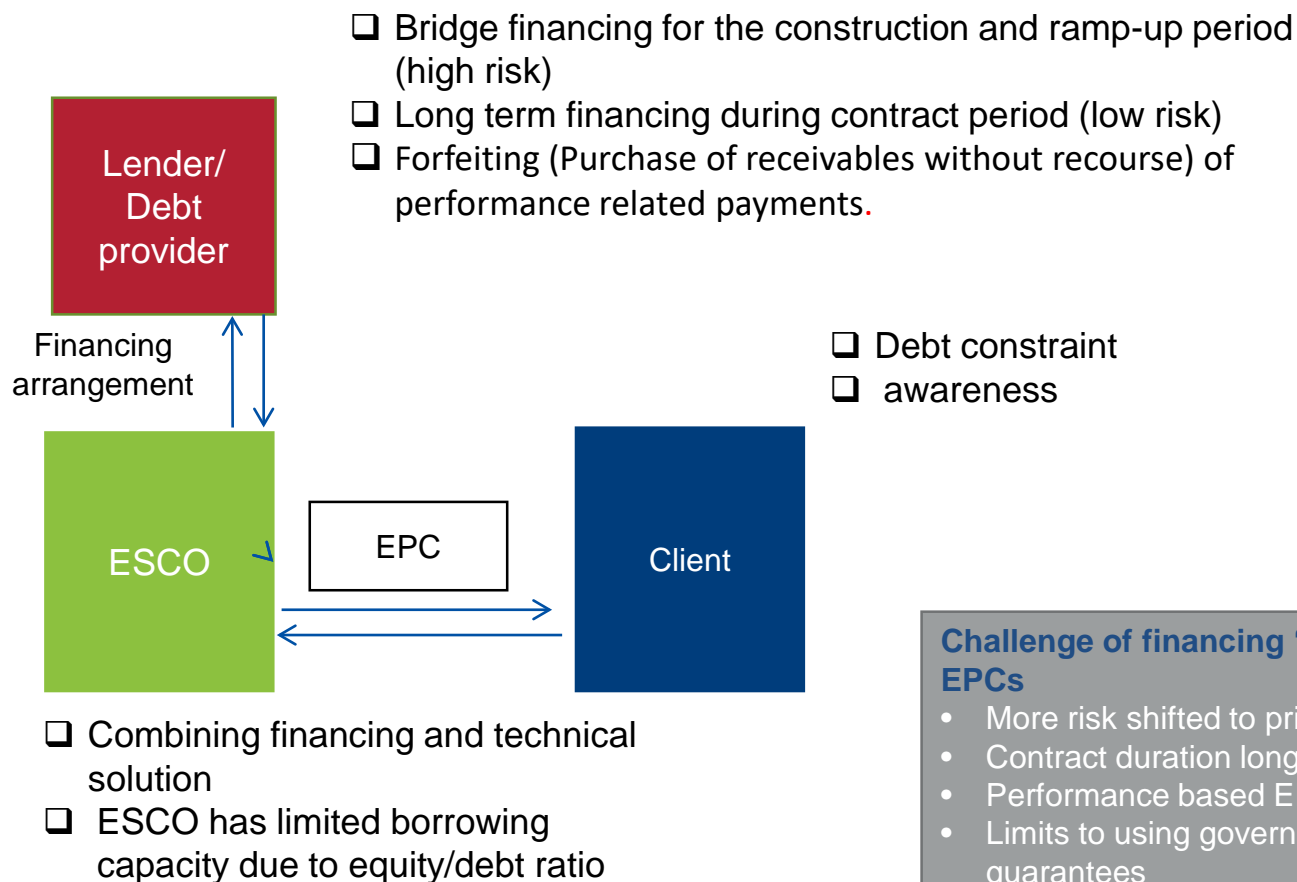
If an asset is “on balance sheet” for government:

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

- ❖ Then government **only pays regular payments to the ESCO if the saving performance is acceptable.**
- ❖ The ESCO has to provide the technical **and the financing solution** to the public body.
- ❖ The ESCO will have to finance the EE measure for **at least 8 years.**
- ❖ The EPC arrangement needs **to comply with specific standard provisions** to ensure public off balance sheet treatment.
- ❑ The EPC arrangement can **include movable and non movable assets**, ensuring larger project cost amount.
- ❑ The ESCO **is better remunerated** with a minimum reward of 2/3 of extra savings.

# ESCO financed EPC: The financial challenges



## Challenge of financing “Maastricht neutral” EPCs

- More risk shifted to private sector
- Contract duration longer than 8 years
- Performance based EPC fees
- Limits to using government financing or guarantees

## Possible solutions

- Standardised templates for EPC
- Best practises for ESCO
- De-risking financial instruments

## Content :

Introduction of EPC concept and global market overview.

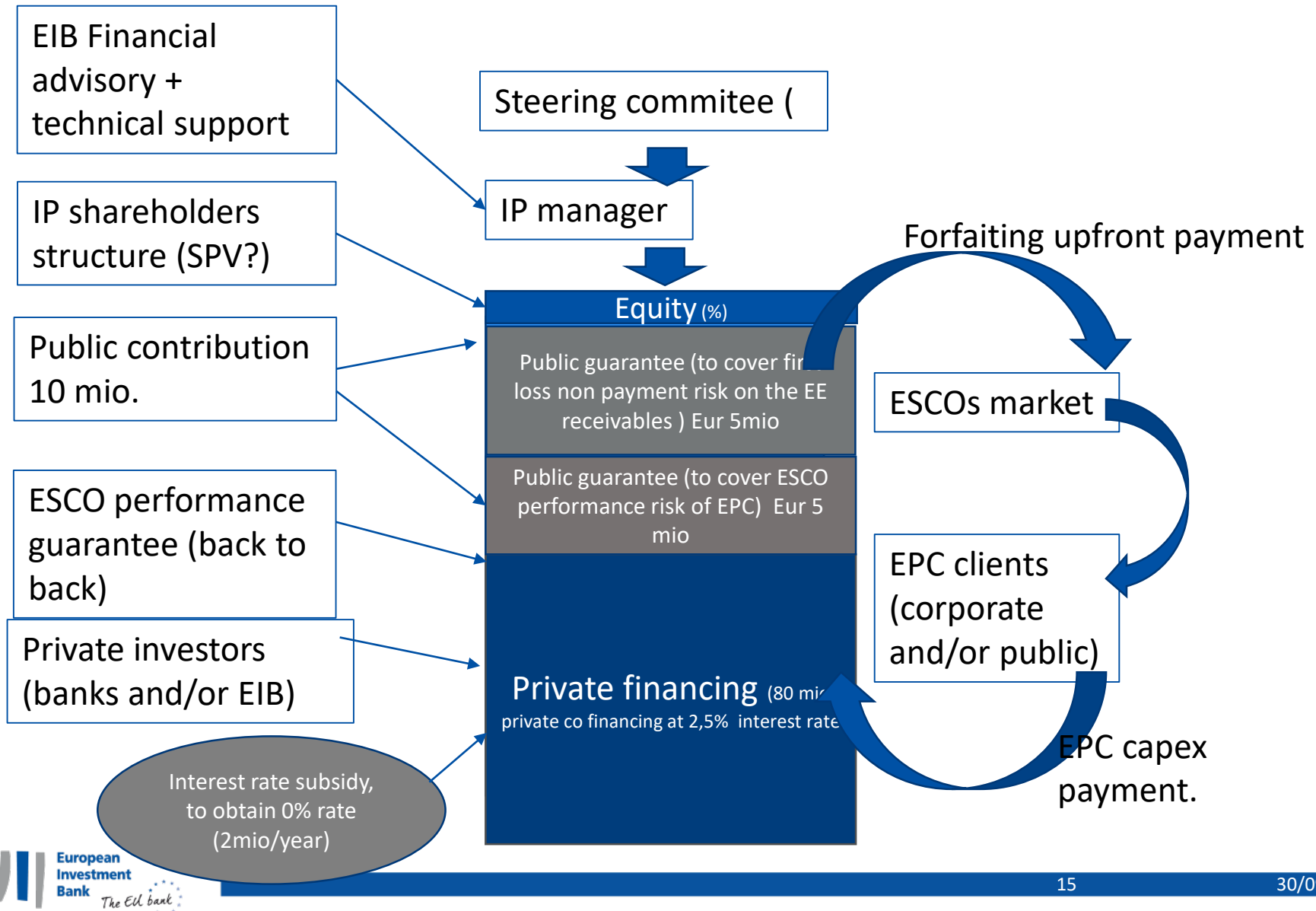
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# Illustrative concept of a EPC Investment Platform with EUR 100 mio financing volume: IP for EE tradable assets.



# EPC IP's unlocking EE investments in EPC

## BARRIERS

## ESCO IP MITIGATION

Complexity of the access to EE grants schemes

lack of trust in the ESCO/EPC market

Fragmented esco and users market.

Small ESCO limited borrowing capacities.

budgetary constraints for EPC client (short return or Maastricht limits)

lack of public EPC/BPC initiatives.

lack of competencies at ESCO level?

One stop shop for ESCOs and EPC clients

Best practices rules applied by ESCO

Standardised EPC templates and processes

0% rate for EE receivable financing

Assignee's payment default guarantee

Access to secured long term financing

Reporting of EE and Co2 savings

Debt and commitment neutral EPC model.

Pilot public EPC supported by GVT

Visibility, communication, show cases.



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## **Awareness raising** on the benefits of EPC and its financing

- Awareness sessions on Eurostat rules
- Information on combination of EU grants and EPC

## **Technical support** for EPC projects

- Support for preparing model contracts (but no legal advice)
- Market demand analysis
- Technical assistance through **ELENA** facility

## **Sustainable financing** of EPC projects

- Lending to banks to on-lend to ESCOs, e.g. **Private Finance for Energy Efficiency (PF4EE)**  
<http://www.eib.org/en/products/blending/pf4ee/index.htm>
- Dedicated financial instrument or investment platforms using resources from Structural Funds and EFSI

*Our aim is to strengthen Europe's investment environment and improve the quality of investment projects*

A **single access point** to a comprehensive offer of advisory and technical assistance services



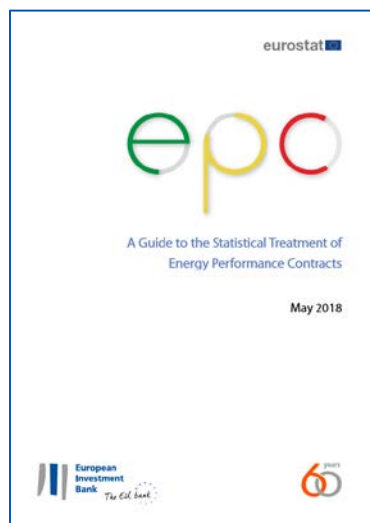
A **cooperation platform** to leverage and exchange expertise from EIAH partners



An instrument to assess and **address** unmet **needs** for advisory support



# Thank you for your attention



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

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