



## **Summary report on streetlight EPC financing** **Project Partner: REGEA**

### **Starting point & project objectives**

The work package "Financing EPC projects" aimed to tackle a major barrier for EPC market development: the access to capital for the ESCOs. Especially in those countries strongly affected by the financial and economic crises, it has become very difficult - especially for SMEs - to get funding from banks. And if a loan is given, interest rates are very high, destroying the economic viability of many EPC projects. Also, with every EPC project implemented by an ESCO, their liabilities grow compared to their assets. For smaller projects, often transaction costs are very high (compared to the project investment), also because the knowledge of banks and of legal service providers of the EPC instrument is very limited and therefore project preparation is very time-consuming.

As the main focus of this project is on small to mid-sized projects (where the investments levels are significantly below those required for European funding programmes), regional and national banks and funding institutions were the main target group for the activities as well as structural funds. For larger projects (implemented by larger cities), guidance and assistance towards European funding options (e.g. JESICA, EEEF) and related Technical Assistance Services (ELENA etc.) was provided. Also, an effort was made to bundle smaller projects into larger ones, making them thereby eligible for European funding. The ESCO facilitator set up a structured dialogue with relevant financial institutions and banks in the region respectively in their country and screened potential sources for capital for ESCOs as well as financial support to pilot projects.

For each region, a short overview of the funding situation for EPC and street lighting projects was developed, including the situation regarding commercial loans and any public programme (including structural funds). It also assessed the main specific bottlenecks encountered (off/on balance sheet financing) as well as potential solutions. This was summarised in a short report (Report on regional/national funding sources). Bi-lateral meetings were held with a minimum of 5 key regional or national funding institutions (banks, organisations managing public funding etc.) to create a better understanding of the issues at hand and how to overcome them. These meetings also served to create a better understanding of EPC projects and - where possible - even to discuss specific projects among the financial institutions (Report on bi-lateral meetings with regional/national funding institutions). For larger projects, the EPC facilitator service provided information and guidance on funding available from the EIB, the EEEF, the respective Technical Assistance Facilities and other funding sources which might emerge in the coming years (Documentation of advice provided). WP leader (REGEA) collected updated information on European funding situation and presented it to the project partners at the second project



meeting (Documentation of a project with European funding). Specific support and advice was provided to larger projects, especially by the WP leader. As a part of these activities, an effort was made to bundle smaller in order to achieve critical mass for European funding (project NEWLIGHT). As a part of the work with European funding sources, the four project expert partners analysed the possibility of establishing a "European streetlight-EPC platform". The analysis carried out included how such a platform could support defining and structuring projects, developing procurement documentation, making links to experienced ESCOs and how to proactively approach CoM signatories and establish links to similar cities etc. (Report on a European streetlight-EPC platform).

## **Main findings & conclusions**

Main findings and conclusions in a nut shell:

- Lack of trust in ESCO scheme (EPC, PPP or similar),
- Strong facilitation needed (for all stakeholders in ESCO projects – public authorities, ESCO companies and financial sector),
- Lack of interest in ESCO scheme due to availability of grants or cheap capital (in some countries),
- Public debt may be a decision factor in some countries,
- Long term contract duration due to low energy prices,
- General lack of EPC/PPP model understanding.

### 1. Raised awareness and trust at the decision making level

Strong political support is a fundamental success factor for effective financing of energy efficiency projects (ESCO models). The lack of awareness at the decision making level of the benefits of and opportunities for energy efficiency projects is hindering the success and multiplication of these initiatives. The European Commission should henceforth develop a more active promotion of ESCO concepts and the need for support during meetings and summits of decision makers on different levels.

### 2. Strong facilitation and dissemination of successful projects to support replication

The share of successful methods of ESCO financed projects is determinant for replication of tested and proven implementation models leading to improvement of financing mechanisms. Successful projects that blended European Structural and Investment Funds with innovative schemes and/or contracts should be prioritised. The European Commission should continue investing in and supporting initiatives that aim at sharing good practices whilst promoting standardised procedures and practices crucial for project success (by EIAH or similar).

### 3. Easier access and smarter use of ESI and EFSI Funds

Even though most Member States can be considered as experienced with the use of EU Structural Funds project developers often face barriers in form of complex set of rules and legal framework imposed by Member States themselves which results in difficulties in spending (absorbing) these funds. Simplification of administrative procedures and a more



open dialogue with project developers on this matter must be considered. ESI Funds must be used for initiating projects and leveraging involvement from the private sector. In this regard, off the shelf financing models offer an effective blend of European, public and private funds that maximises the impact of energy efficiency policies. The European Commission should continue promoting the inclusion of European funds in this type of schemes (ESCO/EPC/PPP). Highly specific requirements for this type of blending are barriers that should be removed and further guidance on how to design such blends must be provided. The decision to initiate the European Fund for Strategic Investments in order to be able to capture riskier projects and engage in activities that are of greater strategic interest is a welcome move towards attracting private sector investors. In order to maximise the use of and access to the EFSI, the European Commission should encourage and support the creation of regional platforms aiming at aggregating small energy efficiency projects (of the same type) in order to reach the eligibility cap. These platforms could enable public authorities to present their projects and entice private sector entities to participate as investors. Reducing the eligibility cap would also be an effective measure in maximising the use of this fund for energy efficiency investments.

#### 4. EPC energy efficiency projects – interpretation of public debt rules

Public accounting rules generally do not take into account the benefits of energy efficiency investments, only their cost. The European methodology on national debts (EUROSTAT) includes energy efficiency projects (or EPC) in the calculations for public debts. The interpretation of public debt rules should not be an additional obstacle for regional and local authorities. An exemption from applicable debt caps would alleviate the regional and local authorities' missions.

#### 5. Predictable energy prices within a completed and regulated EU internal energy market / Encouraging adaptation of public procurement procedures

The rise of the energy price is a major political concern and a significant driver for energy efficiency. The European Commission should make all EU countries implement the relevant EU legislation in order to complete the internal energy market and maintain energy price fully transparent. The European Commission should also ensure that retail prices of energy converge across Europe. This is still not the case because of differences in network distribution systems, uncoordinated national energy and climate policies, taxes, levies and network tariff regulations which are all fragmenting the internal market. Rules on public procurement present considerable hurdles for the implementation of energy efficiency projects. The high costs of tender processes are barriers to investments. The European Commission should encourage an adaptation of public procurement procedures to Energy Efficiency policies.

#### 6. An improved and multiplied offer of Project Development Assistance and capacity building and standardisation in Energy Efficiency innovative financing

In order to tackle the regulatory and financial requirements in the shortest time frame and in a systematic manner, support and guidance in the form of legal advice and/or technical financial advice is needed for market-based financing schemes. In-house capabilities of



local authorities are limited when it comes to setting-up new “finance related” instruments. The European Commission should continue promoting initiatives such as ELENA and multiply its offer of Project Development Assistance or Technical Assistance. PDA is crucial in organising market facilitation and aggregation initiatives. The possibility of launching a facility where municipalities receive support in developing feasibility studies for financing without a payback obligation for unrealised projects should also be explored. Such a structure could become an incubator for further innovative solutions – facilitation services. Given the complexity of alternative financing schemes and their method of deployment both public and private sector are in need of capacity building and better understanding of risk management. Energy agencies and regional and local public organisations would benefit from improvement of financial and legal skills, managing authorities need guidance on how to blend ESIF with innovative schemes and experts in financial institutions should be trained on financing energy efficiency investments in order to properly advise clients. Standardisation of procedures would have a positive effect on implementation of innovative financing schemes especially since many resources have already been developed under various EU initiatives. The European Commission should renew and multiply its offer of capacity building on innovative finance models in both public and private sector focusing on the effective use of financing opportunities whilst promoting standardisation.

## **Key recommendations**

### **Recommendations to municipalities and ESCOs interested in EPC**

- Maintenance costs need to be included in EPC contract and guaranteed,
- High cost of preparatory phase can be co-financed with EU money (PDA-TA programmes),
- Standardisation as a key for building trust (Contract models, Methodologies for data gathering – base line),
- LCCA - Life Cycle Cost Analysis needs to become obligatory for all ESCO/public projects,
- EPC/PPP as a key for risk mitigation  
By ESCO contracting mitigate technical risks of new technologies.

### **Policy recommendations on regional/national/EU level**

- ESCO vs subsidies or EU funds  
strong need to encourage the Combined Financing rather than standalone subsidising programmes. Easier access and smarter use of ESI Funds – finance availability fee rather than capital costs – boosting ESCO market,
- Improved and multiplied offer of PDA's
- EPC vs PPP – strong need for clear and understandable legislation framework (EUROSTAT, public debt),
- Reduce costs of capital for ESCO market players.



Reduce costs of capital for ESCO market players:

- a. by strong promotion on national/regional financial instruments of revolving fund  
Financial instrument – capital/guarantee source for ESCO companies is a key for ESCO market triggering. EC need to guide member states through process of setting up FI – roll out of existing off the shell products like PF4EE;
- b. by structuring financial mechanism for subsidising EPC or PPP projects by overcoming energy price gap (for energy efficiency projects but RES also).

