

# EPC CoC 2<sup>nd</sup> Newsletter

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## EDITORIAL

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### European co-administrators of the EPC CoC

Dear readers,

After the successful experiment of the first Newsletter, released in November 2018, we are happy to present to you this new edition.

As in the previous issue, you can find here on the side the list of all the relevant events regarding EPCs: the ones held in the past, accessible via link, as well as the ones in the future (we look forward to seeing you at our event at EUSEW19, on 20 June in Brussels!).

With this Newsletter we start a new “column” with a focus on the Energy Service Market in one specific Member States.

We start with Portugal, thanks to the outstanding contribution of the Portuguese National CoC Administrators, Carlos Patrão and Paula Fonseca (ISR-University of Coimbra). In their article, at page 2, you will find their assessment on the evolution of such a market, filled with opportunities and challenges, while in the following pages you will find all the relevant figures from the International Energy Agency report.

At page 7 you will find the “traditional” news from the EU: with an interesting report on a meeting between the European co-administrators (together with some national administrators) and the European Investment Bank and European Commission.

We hope you enjoy reading this latest edition of the EPC CoC Newsletter!

You will find our contacts here:

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## EVENTS

### • *Upcoming*

- **EUSEW19 event by EU CoC Co-Administrators - “EPCs: delivering real energy savings from EU to local level”**

Brussels, 20 June (more info soon at [eusew.eu](http://eusew.eu))

### • *Past*

- **“Workshop on Recent Developments in Energy Services Markets in the EU” by the EU Commission / JRC**

Brussels, 27 March

- **IEA Webinar: Global ESCO market updates 2018**

(21 March, watch the webinar [here](#))

- **“Covenant of Mayors Investment Forum: Energy efficiency finance market place”**

19-20 February, Brussels (more info [here](#))

## PORTUGUESE ENERGY SERVICE MARKET EVOLUTION AND MAIN BARRIERS

*Carlos Patrão and Paula Fonseca*

*ISR-University of Coimbra, Portuguese National CoC Administrator*

Compared to other European countries, the EPC market in Portugal is still very low both for small and for large investments, both in the public and in the private sector. However, the EPCs increased significantly in the Public Lighting sector, with several projects being implemented or in the step of signing the Contracts. The main driver for these projects is the existing high potential savings, which is assured by the developments in lighting technologies, on one side (in particular LEDs integrated with remote management systems), in association with the need to revise existing maintenance concession contracts (due to legal requirements related to contract renovation clauses), on the other side.

In some cases, these EPCs, in the Public Lighting sector, are supported by contract models and protocols, that are biased by the lack of definition of quality criteria and minimum requirements to be included in the public procurement process. This situation is mortgaging the future of the less informed municipalities. The main evaluation criteria used for the selection of the solution is the price, disregarding equipment quality and sometimes the European standards for road lighting.

According to the latest discussion forum organized by the National CoC Administrator, in the scope of an EU Project (EPC+), in Portugal, the lack of funding, is no longer the main market barrier. Rather, there is a lack of good projects, both from a technical point of view and from the point of view of economic feasibility analysis. In general, projects are not bankable due to lack of detail and clarity. Thus, further training to prepare applications is needed, as well as the involvement of facilitators who add credibility and trust, and also the sharing of good examples (e.g. through road shows), so that the barriers of lack of information and lack of trust in the business model can be overcome.

Regarding the industrial sector, companies usually give priority to their core business. Their main concern is the production units and not the amount of energy used. However, they are very keen on increasing their competitiveness and available to invest in Energy Efficiency, as long as it proves to produce savings. Usually, they opt for buying the solution instead of the services. EPCs are sometimes viewed as long term contracts, that include maintenance and M&V, and they have and rely on their own staff for carrying these activities. Moreover, either they can afford to invest their own money or have access to better interest rates from commercial banks. Therefore, they are not interested in the ESCO business for small to medium projects.

For buildings, the main barriers are the lack of awareness, lack of people engagement, and mistrust. Financing is no longer the first barrier being mentioned. There is financing available but well-designed projects, coherent, credible, well documented and based on credible references, both technical and financial, are missing. There is a lag between the bank and the ESCO/clients. There is a communication problem. There is a need for dissemination of best practices and good examples and for education and training to tackle this legal, financial and technical lack of knowledge.

EPC+ European project revealed that the involvement of a Facilitator and or Observer is an added value for the success of the projects, representing less time required from the EPC provider and therefore less customer charges. The role of a trustable and independent facilitator can be the key for the success of EPCs to deploy further.

In the next pages the main figures of the latest International Energy Agency report are presented, regarding the global and Portuguese ESCO national market.

## The value of the global ESCO market is growing

International Energy Agency Report

(Source: [www.iea.org/topics/energyefficiency/escos](http://www.iea.org/topics/energyefficiency/escos))

According to a recently published International Energy Agency (IEA) report, the value of the global ESCO market grew 8% to USD 28.6 billion in 2017, up from USD 26.8 billion in 2016.

China continues to underpin the global ESCO market, growing 11% to USD 16.8 billion in 2017. The market in the United States, where ESCOs have been operating for well over 30 years, grew to USD 7.6 billion in 2017. In Europe, the ESCO market remains somewhat underdeveloped compared to other major regions, representing 10% of the global total.

In the next figure, published on the referred report, we can see the annual growth of global ESCO market for the fiscal years 2015 to 2017

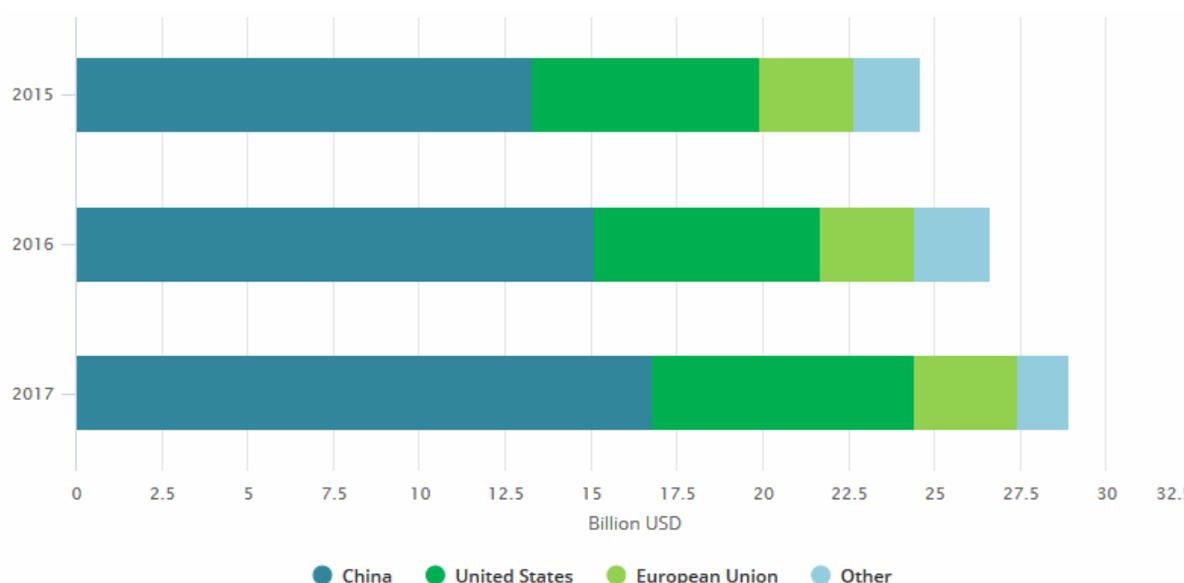


Figure 1 – Annual growth of global ESCO market for fiscal years 2015 to 2017 (Source: IEA).

According to the same report, there are notable differences in ESCO markets between countries and regions. These include the definition of an energy performance contract (EPC), the policies ESCOs are subject to, and technical capability. However, on average, the report refers also that ESCO projects are delivering energy savings upwards of 25%. While ESCOs have the ability to implement projects in buildings, industry and transport in both the private and public sectors, the majority of ESCO projects takes place in the non-residential buildings sector, followed by industry, with virtually no projects in the transport sector.

# Portugal ESCO market

International Energy Agency Report

(Source: [www.iea.org/topics/energyefficiency/escos](http://www.iea.org/topics/energyefficiency/escos))

The online report from IEA, besides the global market information, also shows country individual reports based from both [QualitEE](#)'s energy efficiency service's analysis and the JRC's 2017 report, [Energy Service Companies in the EU](#).

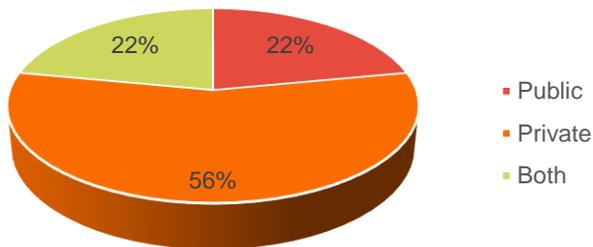
In the next figures the infographics for the Portugal ESCO market, based on the [IEA report](#) are shown.

**~5** ESCOs operate in the Portugal

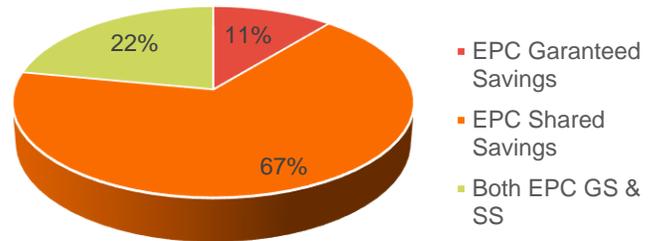
**35 Million US Dollar National ESCO Market**



**ESCOs Activity: Public VS Private Sector**



**ESCOs EPC type**

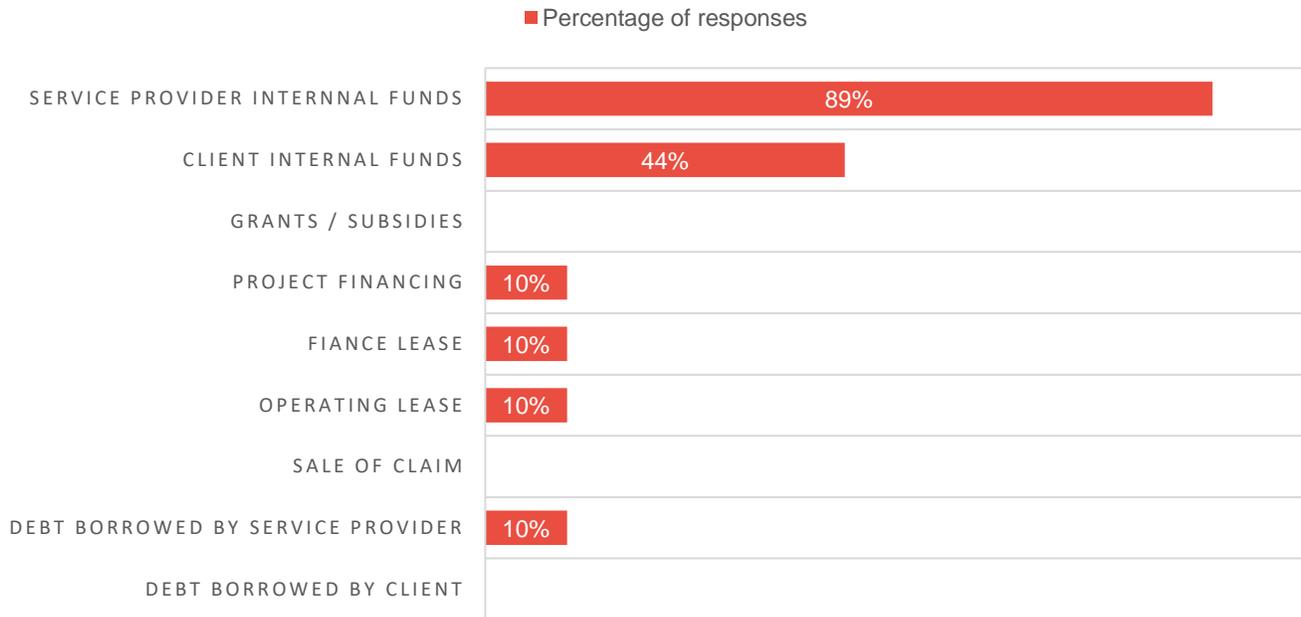


**Average capital costs of ESCO projects in Portugal**

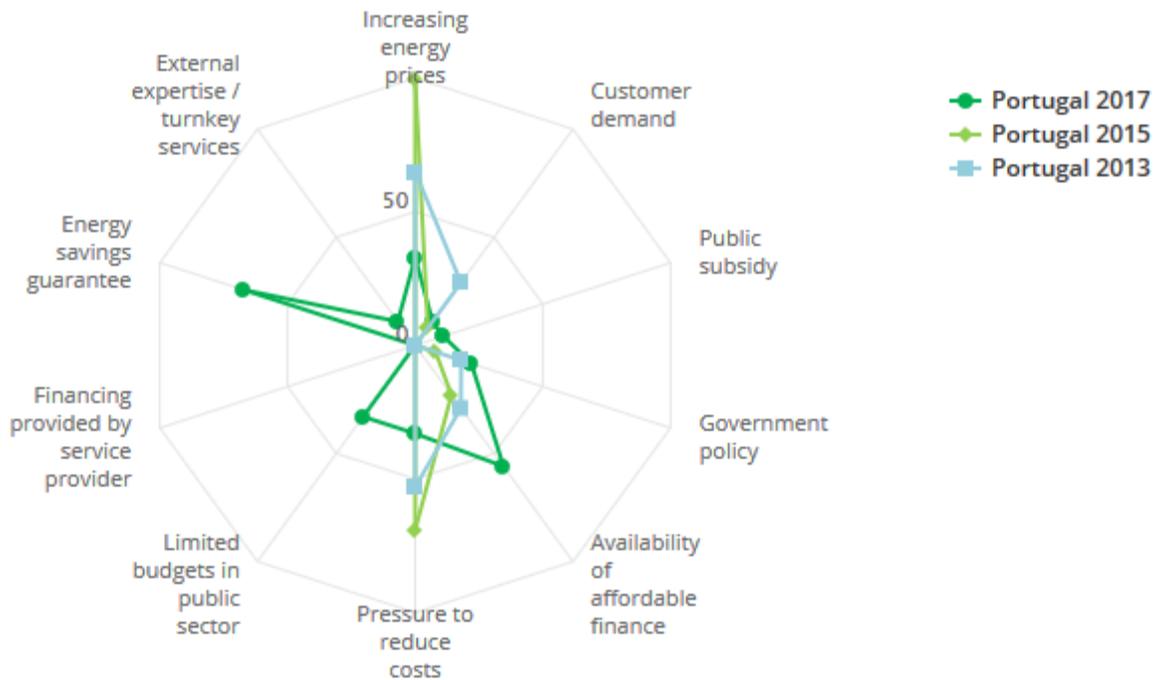


Source: International Energy Agency

## Portugal - Source of financing ESCO projects



## Portugal - Business drivers



Source: International Energy Agency

## Portugal - Business Barriers



Source: International Energy Agency

# NEWS FROM THE EU LEVEL

## MEETING WITH EIB and EC on EPCs

On Thursday 21 February 2019, eu.esco, EFIEES and EU-ASE, together with a delegation of National EPC CoC Administrators, met in Brussels with representatives of the European Investment Bank and the European Commission to discuss current developments, opportunities and challenges for Energy Performance Contracts.

The Commission started highlighting the huge investment gap for energy efficiency investment, listing some of the actions identified to address these issues: monitoring the implementation of relevant policy frameworks, supporting investment flows (e.g. through the SFSB or ELENA initiatives), raising awareness at Member State level (e.g. through SEIF).

The EIB described the situation at Member State level, one year after the new Eurostat rules and the publication of the guide:

- “Maastricht neutral” contract models were developed (Belgium, Slovakia, Slovenia, Spain, Scotland) or are in development (Austria, Czech Republic, Ireland, Poland)
- Several barriers to EPCs are still in place in some MS: in France they are always on-balance sheets, in Germany there are different policies based on the region, in Latvia public authorities cannot sign long-term service contracts (longer than 3y)
- More general barriers at EU level are still present: lack of information and awareness, lack of trust, complexity of procurement process, access to finance for EPC providers, low energy prices...

Based on this situation, the European Investment Bank described some of the activities that it is currently putting in place in order to promote EPCs:

- Raising awareness about the benefits of EPCs and their financing (e.g. by talking directly to relevant public authorities in Member States)
- Providing technical assistance for EPC projects (e.g. support for preparing model contracts, market demand analysis, capacity building for financial institutions, project development assistance...)
- Supporting financing of EPC projects, via lending to banks to on-lend to ESCOs (e.g. PF4EE) or via dedicated financial instruments or investment platforms using resources from ESIF and EFSI

The EIB stressed the importance of EU funds: as they are not considered as government financing by the Guide, national governments could set up a guarantee instrument that covers up to 49% of the investment, backed by EU funds, and this will not be counted as debt. The EIB is currently looking into developing a platform to ensure the proper combination of structural funds and energy efficiency investments in the form of EPCs. The event was concluded by a Q&A session aimed at clarifying some contents of the Practitioners’ Guide.

## ERDF/CF 2021-2027

On March 27<sup>th</sup>, the Plenary of the European Parliament adopted its report on the European Regional Development Fund and Cohesion Fund Regulation for the next EU budget period 2021-2027. MEPs included in their report an amendment inserting “*buildings with improved energy performances resulting from contractual arrangements which guarantee verifiable energy savings and improved efficiency, such as energy performance contracting*” among the result indicators that Member States can use when tracking their progress in the use of the funds. This is a very good step forward to ensure the right combination between structural funds and EPCs and it will be further discussed during trilogue negotiations between the EU institutions as of Autumn 2019.