II°Seminar of Information Campaigns
ESCO and third party financing

Twinning Project BULGARIA and ITALY

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ESCO instrument to finance the EE and RES program in local and regional authorities

- Everywhere in Europe there is a visible crisis in **public funding**. In addition to the increasing **liberalisation of markets**, **municipalities have to find other strategies toensure the proper management of their projects and of their investments**. The energy sector falls within the scope of this new political order. Moreover, municipalities are directly affected by changes in the energy markets because:

✓**They are energy consumers,**

✓**They are energy producers,**

✓**They often distribute gas, electricity or heat,**

✓**They plan urban areas and organise the energy networks on their territories,**

✓**They provide the citizens with advice.**

- **The European Community**, in the same spirit, encourages local initiatives concerned with sustainable development, including energy efficiency policies. In this perspective, **co- peration between the public and private sectors might prove to be an interesting solution.**

What is the main issue to be confronted?

- **In the field of energy efficiency, there has been co-operation between the public and private sectors for a long time**, but it has only been sporadic. The existing examples of such cooperation will help in establishing the balance between the respective roles of public and private sectors, that is, the private company, usually called **ESCO (Energy Service COmpany),** must be left the freedom to act, whilst the municipality must exert its essential control.

Public-private partnerships can be roughly classified into three categories

- ✓ The public authority and a private organisation form a **private/mixed company**. Both participate in that company. The new company carries out the public services.

- ✓ The public authority signs a contract with a private organisation for a planned duration, who carries out the public tasks (such as, for example, construction and maintenance) with his own investments, but the responsibility for providing a public service to citizens still lies in the hands of the public authority. This is **Performance Contracting (PC).**

- ✓ The private organisation is granted a concession to provide a service and is alowed to charge the citizens using that service a fee. This is **concession contracts.**

What is the current situation for Municipalities?

- ❑ **Energy efficiency is becoming a priority, since it allows the problems associated with the greenhouse gas effect to be reduced and it improves energy supplying security through significant energy savings. Municipalities, however, are often confronted with the following vicious circle:**

  - ✓ **They own buildings and equipment with quite bad energy performance, so energy is costing them too much,**
  - ✓ **They do not have sufficient funds to make investments which would result in energy savings, so they continue to waste energy and money,**
  - ✓ **Although they have limited resources, they pay a lot for the energy they use, and so do not have enough money to invest and, even more, to create investment funds.**

❑ **Performance Contracting can provide good solutions for overcoming these barriers.**

What is Performance Contracting – EPC, TPF

- The basic principle is quite simple: **the Energy Saving Partners (ESCO's**) input their know-how and the necessary financial resources into the project; that is they plan, build, maintain and finance at their own risk. It is their responsibility to ensure that adequate investment is made in buildings, so guaranteeing that there are energy savings.
- These energy savings are based on the average energy consumption for the previous years. **The contractors finance their investments through the savings made in energy costs**. **The municipality pays the energy** bill as normal and, at the end, becomes owner of the efficient equipment.
- **Profits are reaped by both client and contractors**, not forgetting the important benefits for the nvironment.
- **This type of contract guarantees installations of high quality**, therefore, since this is in the contractors' interests: high quality installations will mean reduced operating and maintenance costs. Energy efficiency will be optimised, since the greater the amounts of energy saved, the more contractors earn. If installations stop working, the contractors must ensure service continuity.
- At the end of the contract, **the client profits fully from the cost savings achieved**. The parties might agree to allow the municipality a share of the cost savings during the term of contract.
- **Performance Contracting, or Third Party Financing (TPF), may also be attractive to energy users who have financial resources available**, since it allows them to obtain a profit from energy savings, without them needing tie up their capital. These resources can then be used for other purposes.

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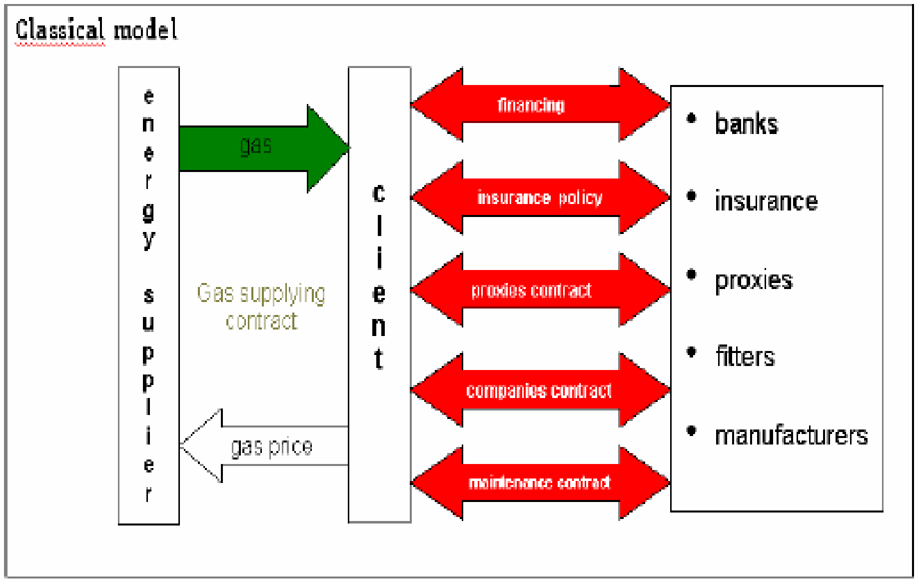
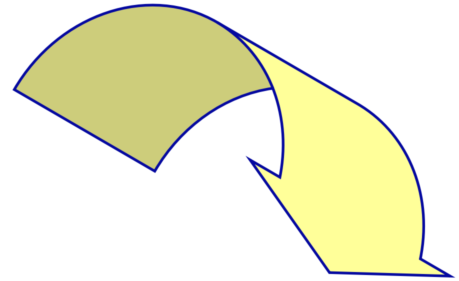
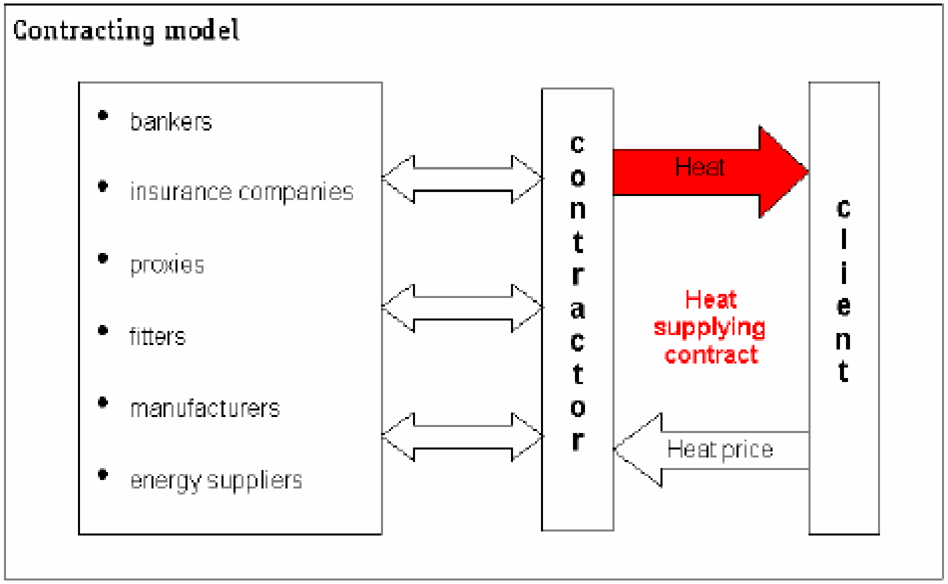
Evolution from classical contract model to the EPC, TPF (Performance Contract) contract model

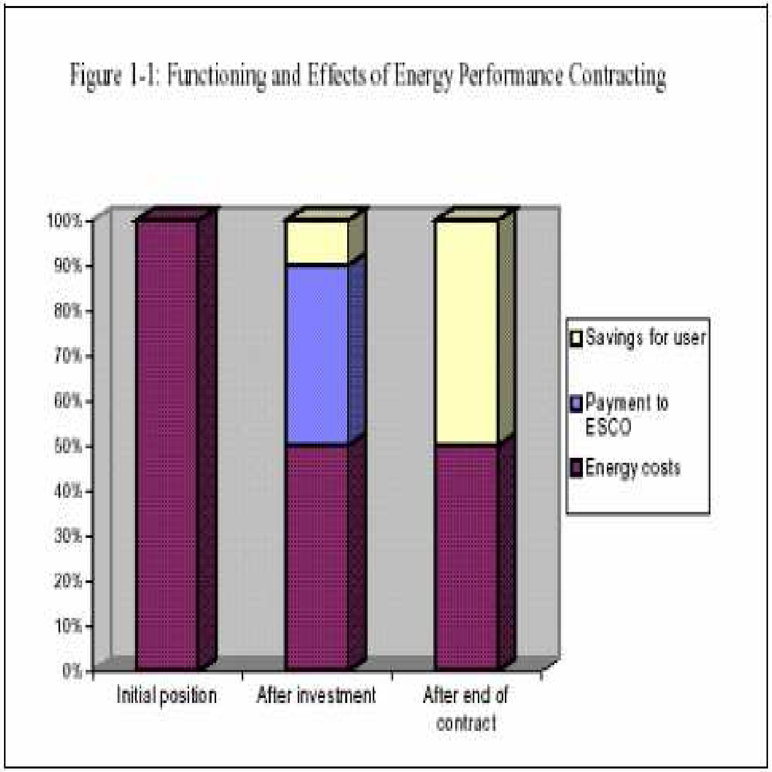






Performance of the EPC and TPF contract

- Experience shows that energy costs can be reduced by over 25%. The client can also save money through savings in heating and electricity obtained as a result of the energy efficiency measures that are implemented.
- The contract period is usually for between 7 and 15 years. Depending on the actual situation, this duration can last less than 7 years.
- Example: Without Performance Contracting, the municipality pays its whole energy bill.During the contract, the municipality pays 90% of its initial energy bill (among which 50% represent the energy cost and 40% pay back for the contractor's investments),
- that already permits 10% of savings. After the end of the contract, the municipality pays only 50% of its initial energy bill and profits from 50% of savings.



How to implement Performance Contracting?

- ❑ It is particularly important:
- ✓ To know how to identify buildings that are suitable for an energy Performance Contracting project,
- ✓ To establish clear targets to be attained by the project,
- ✓ To know which points to consider when awarding an energy performance contract,
- ✓ To know which elements should be included in this contract, and
- ✓ To know what the responsibilities of the local authority will be once the contract is concluded.

Feasibility study of the Performance Contracting process

Main aspects

- ✓ The feasibility study must contain:
- ✓ The object of the agreement,
- ✓ The basis of the contract,
- ✓ The contractor's obligations,
- ✓ The municipality's obligations,
- ✓ Additional regulations.

What should a Performance Contract contain?

Performance Contract between a public authority (municipality) and a private company (contractor).

Contractors' obligations

> Installation (which works make up an installation, what are the quality levels, duration, inspection and approval),

> Guaranteed target (providing heat/electricity, guaranteed savings, energy cost baseline, calculation),

> Maintenance (what exactly is to be maintained, how often, replacement or alteration, emergency cases),

ESCO the main partner for the local authorities in the Energy Efficiency and RES !!

Thank you for your attention

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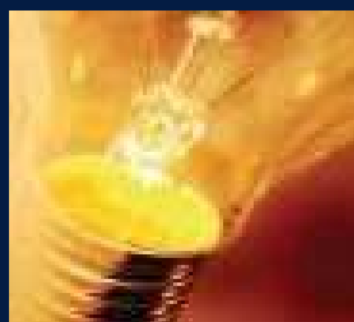
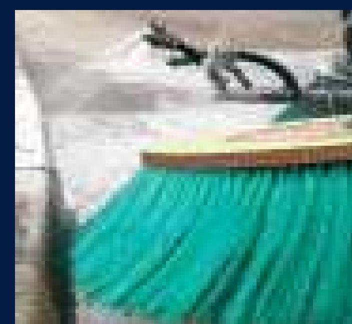
“Un valore speciale per il territorio in cui opera
e per le comunità che lo abitano”

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