

EnPC/ESCO in Romania (public buildings and public lighting)

Dana Ionescu – EBRD



European Bank
for Reconstruction and Development

Benefits of EnPC / ESCO

EBRD specific support in Romania:

- **Pilot project: Opening the market for ESCOs** (financed by GEF)
- **TA project: EE financing scheme in public buildings and public lighting** (EU financing under ROP 2007-2013, preparing the grant scheme to be financed under ROP 2014-2020)

Next steps

BENEFITS of EnPC/ESCO for public authorities

For public authorities, the benefits of implementing EE in public buildings and public lighting, by using EnPC/ESCOs, include:

- Efficiency services are based on a **guaranteed level of savings**
- Shifting (part of the) **technical and/or economic risks** to the ESCO
- **Repayment from future energy cost savings**
- **Saving /reducing investment costs** through third-party financing
- A complete offer of energy efficiency services, including **design, installation, financing, maintenance and verification**
- Long-term increase of comfort level and property value.

EBRD specific support in Romania included :

- Pilot project: Opening the market for ESCOs (2011-2015, financed by the Global Environment Facility - GEF)

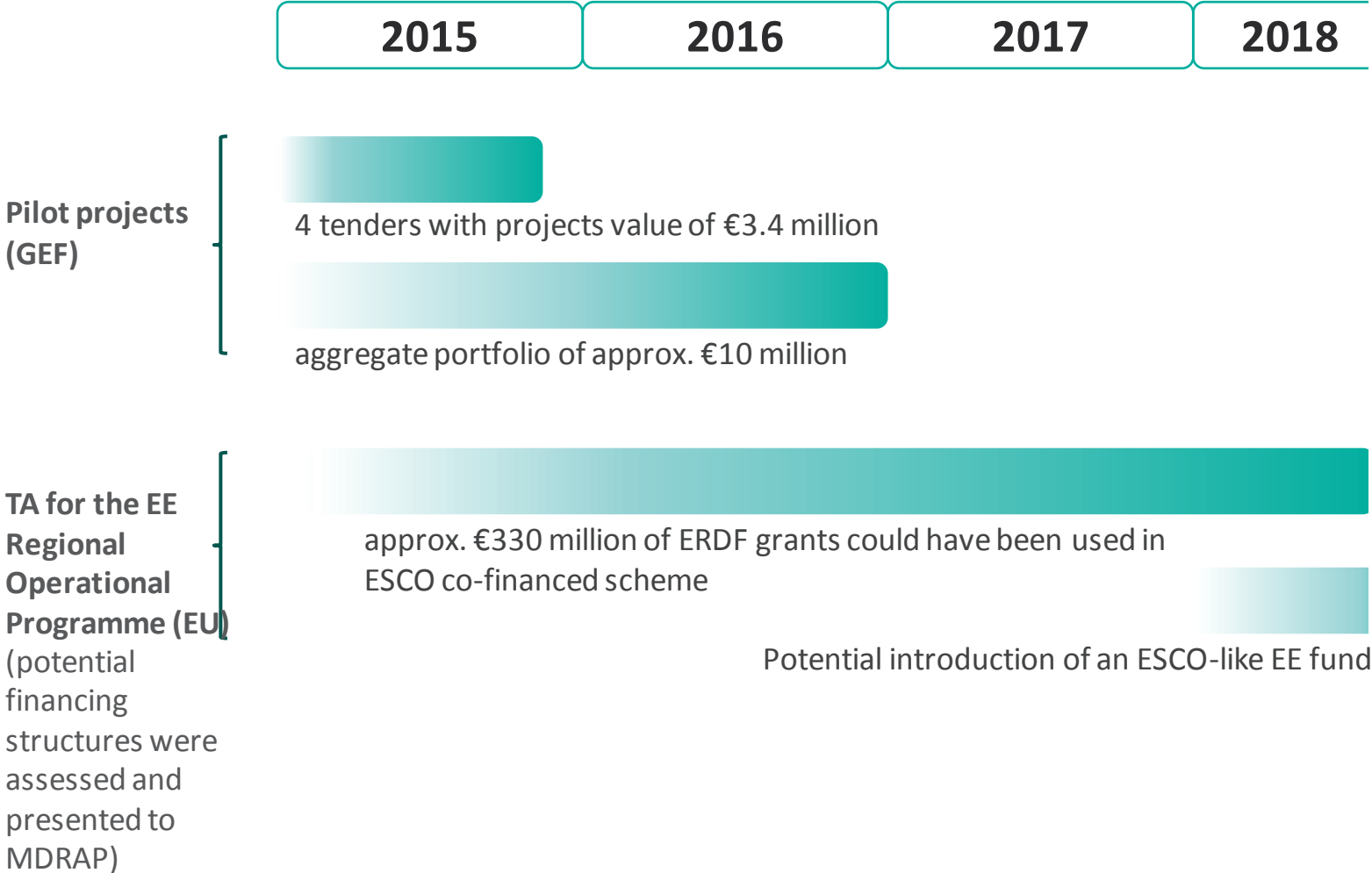
EBRD tried to support the development of the first ESCO-based pilot projects in **public buildings (Galati and Craiova)**, to confirm the viability of the concept and build capacity, in advance of launching the relevant EE scheme under the ROP 2014-2020.

- TA project: EE financing scheme in public buildings and public lighting (financed by EU grants; July 2013 - Oct 2014)

Energy efficiency in **public buildings and public lighting** is a Governmental priority, included in the ROP 14-20. EBRD provided support to the **Managing Authority for ROP**, regarding the design of EE schemes in public buildings and public lighting, to be financed under ROP 2014-2020.

EBRD specific support in ROMANIA

II



➤ Key Objectives:

- **Scoping pilot projects** with participating municipalities via technical and energy audits, drafting of technical and legal documentation to launch tenders, advice on city budgeting.
- **Drafting an EnPC** template
- **Regulatory support** to assess the enabling legal framework for public sector EnPCs, identify gaps and recommend changes to legislation to address them.
 - On-going consultations of legal experts vis-à-vis the classification and budgeting of municipal payments due under EnPCs;
 - Advice on applicable tendering procedures.

➤ The stakeholders signalled the following concerns:

- Relatively **new concept** for Romanian stakeholders
- Un-clear **legal and procedural framework, including procurement**
- **Banks** – the possible materialization of the technological risk implies that ESCOs, as borrowers, need to be strong enough to assume repayments; as such, commercial banks would only target large companies (few in the Romanian market) or would need support/**guarantees** to manage these risks, at least for an initial phase.
- **Municipalities** – the classification of energy cost savings of municipalities to be clarified whether they represent **public debt or not**.
- **ESCOs:**
 - the changes in assets' destination/ownership and changes in behaviour may affect **cash flows from savings**
 - availability and cost of **long-term debt** to match EnPCs with long repayment profiles might be problematic.

➤ The EBRD tried to address concerns via:

- **Technical assistance and policy dialogue** - support to municipalities in tendering the first pilot projects and in creating awareness amongst ESCOs and banks.
- **The EnPC template developed for the pilot projects** via on-going consultations with ESCOs, municipalities and banks, to ensure:
 - an optimum division of risks between the municipalities and ESCOs;
 - procedures to calculate savings and to address disputes regarding savings;
 - potential for adaptation to specific building types and EE measures (or lighting systems).



➤ EBRD – ESCO Project; where did we stop?

- **EnPC draft** was developed
- **Pilot cities** were selected
- **Building pools** were analyzed (hospitals , schools and kindegardens)
- **EnPC Contract** draft was prepared for the pilot cities
- **EnPC tenders** were launched

➤ **Duration**: August 1st 2013 – October 31st 2014

➤ **The assignment included the following key tasks:**

Task 1 – An analysis of the current situation; rationale and strategic objectives; examples of best practices;

Task 2: An indicative list of eligible expenditures and identification of selection criteria; Proposal of an investment scheme and financial mechanism;

Task 3: Procurement guidelines; Monitoring procedures and methodology; Capacity building strategy.

➤ Recommendations:

Proposed scheme under ROP 2014-2020 - 2 options (A and B below):

A) Direct management by the Managing Authority for the ROP (MA); this is further broken down by 2 sub-options:

A1) **EE grant scheme, with ESCO/EnPC involvement;**

1a) EU/PA co-financing (guaranteed savings; the PA is co-financing the investments)

1b) **EU/ESCO co-financing (shared savings and co-financing by ESCO).**

A2) **EE traditional grant scheme** (replication of the Pilot scheme under ROP 2007-2013 for EE in residential buildings).

B) Delegated management to Fund Managers - the MA delegates to another entity (a 'Fund') the management of some tasks/a part of the available grants, or of the entire scheme/entire grants allocation.

➤ Recommendations:

➤ Supporting instruments

- In the short term, introduction of a **Guarantee fund** in the form of **first loss reserve**, to be made available from the EU grants, in order to address the perception risk of the financiers/banks, aiming to open the private sector financing market;
 - In the medium term, introduction of a **Forfeiting Fund**, to be made available either by the commercial market or from EU grants, depending on the needs, in order to address the need for increasing financing capacity of ESCOs in a growing market.
- Technical assistance – scheme level TA and project level TA.

MDRAP's decision was **not** to introduce the EnPC/ ESCO mechanism as a possible implementation vehicle for ROP 2014-2020

NEXT STEPS for implementing EnPC/ESCO in Romania (public buildings / lighting)

GENERAL:

- *Clear procurement rules* – need to further clarify the applicable procurement procedure for the selection of ESCOs by the PAs
- *Enabling legal and institutional framework* – cooperation between responsible ministries, agencies and authorities, regarding EE and EnPC/ESCO
- *A draft EnPC*, acceptable to the parties
- Clarification whether the amounts paid by PAs to ESCOs represent *public debt or not*.

SPECIFIC:

- *Pilot projects needed* to prove the mechanism is working
- *Technical assistance pre- and post- pilot project implementation*.

THANK YOU

Venera Vlad ♦ vladv@ebrd.com

Dana Ionescu ♦ ionescud@ebrd.com



European Bank
for Reconstruction and Development