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Private EPC involvement in financing energy efficiency Latvian policymakers outlook



RoundBaltic – the Role

In Latvia RoundBaltic acts as **organizer, coordinator and facilitator** of productive interaction between the EE practitioners and policymakers to minimize the obstacles identified in SEI Forum roundtables, which took place in 2018 and 2019 and to find alternative financial sources to create new financial instruments.

It is achieved through gathering stakeholders in a dynamic forum and stimulating their constant and continuous further cooperation.

RoundBaltic – the Gist

It's always about money...

EU and other public funds alone will not be sufficient to cover the investments necessary to reach the energy and climate objectives in 2030 and 2050.

To reduce greenhouse gas emissions by 55% by 2030 (compared to 1990 levels), we need to invest an estimated €392 billion more each year in the energy system than we did in the period 2011-2020.

Energy efficiency faces one of the largest investment gaps, estimated at around €165 billion annually.

(European Commission)

*https://energy.ec.europa.eu/topics/energy-efficiency/financing/de-risking-investments_en

RoundBaltic – the EPC

Energy Performance Contracting (EPC) – perfect tool

Energy Performance Contracting (EPC) is a form of ‘creative financing’ for capital improvement which allows funding energy upgrades from cost reductions.

Under an EPC arrangement an external organisation (ESCO) implements a project to deliver energy efficiency, or a renewable energy project, and uses the stream of income from the cost savings, or the renewable energy produced, to repay the costs of the project, including the costs of the investment. Essentially the ESCO will not receive its payment unless the project delivers energy savings as expected.*

(European Commission)

*<https://e3p.jrc.ec.europa.eu/articles/energy-performance-contracting>

EC support

The Energy Efficiency Directive

Member States should **continue supporting the public sector in the uptake of energy performance contracting** by providing model contracts that take into account the available European or international standards, tendering guidelines and the Guide to the Statistical Treatment of Energy Performance Contracts published in May 2018 by Eurostat and the European Investment Bank on the treatment of energy performance contracting in government accounts, which have provided opportunities for addressing remaining regulatory barriers to these contracts in Member States.*

* <https://www.eceee.org/policy-areas/EE-directive/>

EC support (continued)

DG Energy campaign

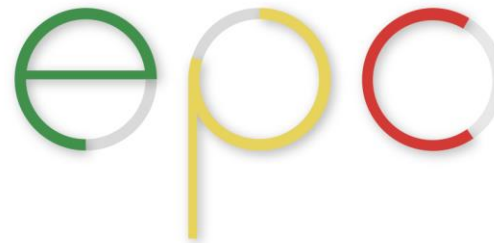
To facilitate the further development of the ESCO/EPC market, DG Energy launched an EPC campaign to promote and build capacity for Energy Performance Contracting and Energy Services Companies throughout Europe. The aim of the EPC campaign is to enable country-specific discussion and capacity building of the core stakeholders, which should **enable better understanding of the business model, its challenges and opportunities, increase confidence regarding its reliability and effectiveness**, and help Member States in establishing a legal and financial framework for the market with energy services*

* http://ec.europa.eu/energy/efficiency/buildings/buildings_en.htm

EC support (continued)

A Guide to the Statistical Treatment of Energy Performance Contracts

Eurostat and EIB guidance on the treatment of EnPC contracts in government accounting (2017, 2018).*



A Guide to the Statistical Treatment of
Energy Performance Contracts

May 2018

*https://ec.europa.eu/eurostat/documents/1015035/8885635/guide_to_statistical_treatment_of_epcs_en.p%20df/f74b474b-8778-41a9-9978-8f4fe8548ab1

National framework

National Energy and Climate Plan 2021-2030 (Latvia)*:

- Latvia needs to be more active in supporting the ESCO system.
- The plan also foresees attracting private investment in energy efficiency improvement projects (developed ESCO market), which will provide an opportunity to increase the available funding for the renovation of buildings in general.
- An obstacle to the promotion of ESCOs (PESCOs) and the implementation of ESCOs (PESCOs) in the public sector is the conditions for accounting for long-term credit liabilities (including commitments under energy efficiency service contracts), as local government liabilities, incl. commitments entered into under the agreements are recorded in the local government balance sheet, which has an impact on the state budget and fiscal space.
- The public sector has no experience in preparing and implementing ESCO procurement and no guidelines are available for preparing ESCO projects and organizing procurement.

* <https://likumi.lv/ta/id/312423>

National framework (continued)

National Energy and Climate Plan 2021-2030 (Latvia)*:

- Given the lack of experience in the public sector in the preparation and implementation of ESCO procurement, it is necessary to develop guidelines for the preparation of public sector ESCO projects and the organization of procurement,
- It is also planned to develop a model of fiscally neutral agreements (for the developed agreement the general government budget balance and debt in consultation with EUROSTAT, after obtaining confirmation that the draft contract is to be included in the private partner's balance sheet), public debt.
- At the same time, it is necessary to ensure that local governments and public authorities can make long-term commitments (up to 20 years) if an ESCO project is implemented. But in order to build practical experience of ESCO projects in the public sector, as well as to create a better understanding of the usefulness of both projects, it is necessary to combine both public and private investment.

* <https://likumi.lv/ta/id/312423>

RoundBaltic – the Findings

Change of Heart

RoundBaltic – the Findings (continued)

Change of Heart

EPC is complex and burdensome, requiring extensive EC and EUROSTAT approval process for every single ESCO contract to be undertaken by public sector.

RoundBaltic – the Findings (continued)

Change of Heart

Only worthwhile with multiple project bundling (minimum 10M EUR).

RoundBaltic – the Findings (continued)

Change of Heart

Providing easy pathway to borrowing for ESCOs is a threat to Latvia's fiscal space.

RoundBaltic – the Findings (continued)

Change of Heart

Opening the gates for ESCOs might cause inflation of construction costs, which needs to be avoided.

RoundBaltic – the Findings (continued)

Change of Heart

It is much more important to use the finances offered by the EU grant money and consider ESCO services only after this option has been used up.

RoundBaltic – the Findings (continued)

Change of Heart

Current Latvia's energy efficiency target (improve energy efficiency in 3% buildings per year) is met, we are doing our job, so there is no reason for stress.

RoundBaltic – the Findings (continued)

Change of Heart

Current Latvian government apparatus does not have a human capacity and skill level to undertake the implementation and control of active ESCO market.

RoundBaltic – the Findings (continued)

Change of Heart

This can be changed only by highest level political decision on what is important for economy and fiscal space of Latvia in the next 10-year period.

RoundBaltic – the Question

WHERE DO WE GO FROM HERE?

Thank you!

Latvian Environmental Investment Fund

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