

EPC CoC 6th Newsletter

April 2021

EDITORIAL

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Dear readers,

In this 6th edition of the Newsletter, we would first like to welcome the Alliance for Energy Efficiency (AEE), and its chairman, Kiril Raytchev, for joining the EPC CoC network as new Administrator in Bulgaria.

AEE kindly accepted to contribute to the country focus of this newsletter, which will indeed provide an overview of the Bulgarian ESCO market and of the national developments relating to the energy performance contracting business model.

We then invite you to read the usual section on “News from the EU level”, as this year will be critical for energy efficiency legislation. Several initiatives, such as the EED and EPBD review, will represent indeed important occasions to foster the role of ESCOs and EnPCs as key solutions for improving energy efficiency and reducing CO2 emissions, notably in the building sector.

The EU Commission is also working on a guidance document to help Member States make the “Energy Efficiency First” principle operational and this will be another topic briefly addressed within this newsletter.

Both EFIEES and eu.ESCO keep on actively promoting ESCOs and EnPCs at the EU level, and they have recently co-organised the 4th edition of their roundtable on these topics with the EU Commission and the European Investment Bank Group. The meeting of this year, which took place online in late February, focused on the role of ESCOs and EnPCs in the new EU budget and in the revision of the EED.

As usual, we hope you will enjoy reading the Newsletter!

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EVENTS

Upcoming

Active building Energy Performance Contracting (AEPC) - Belesco & AmBIENCE joint webinar
20 April, 10am – 12 pm (CET)

BEHAVE 2020-2021 – 6th European Conference on Behaviour and Energy Efficiency
21 – 23 April, online

EU Green Week 2021
31 May – 4 June, Finland/virtual

Covenant of Mayors Investment Forum
15 – 16 June, online

EUSEW 2021
25 – 29 October, online

Past

Virtual roundtable on ESCOs and EnPC in the new EU budget and in the EED review
26 February, online

Overcoming regulatory and policy barriers to catalyzing ESCO development globally
23 March, online

The Bulgarian ESCO Market perspectives: past, present and future of the EnPC business model

Kiril Raytchev, Chairman of the Alliance for Energy Efficiency (AEE)

I. ESCO Activity (Passivity) in BG

The EnPC business model has a long history in the Bulgarian market, but relatively precise analysis can be conducted on the basis of data records found in the Public Procurement portal, in operation since 2006. If we take a look at the number of procurement notices and the number of terminated procedures for the period 2006-2017 (Figure 1), two negative trends are clearly observable. On the one hand the number of ESCO notices decreased in time, while on the other hand, the percentage of terminated notices increased. To put it other way, the ESCO notices not only started to disappear from the public market, but also their quality in terms of administrative and procurement compliance began to deteriorate and only a few notices managed to lead to EnPC contracts closure. Both negative tendencies practically resulted in net zero ESCO market activity.

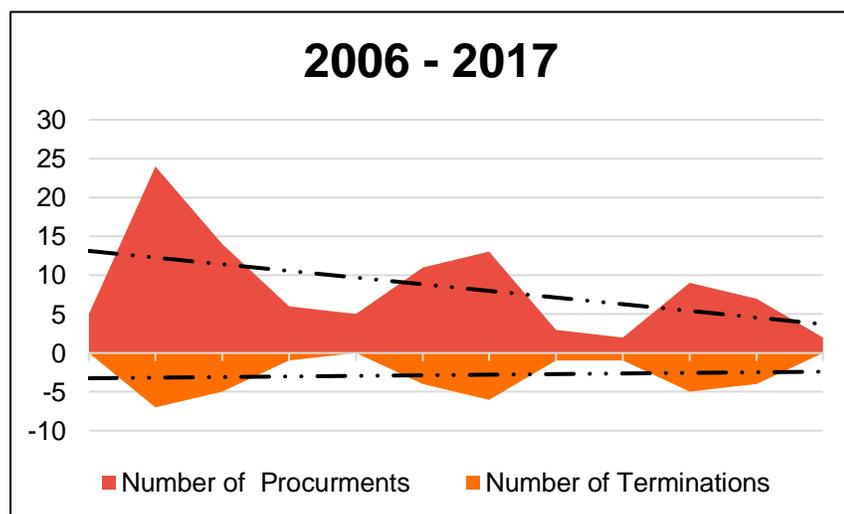


Figure 1

Another market dynamic that is easily detectable is the “seasonality” of the tenders. This phenomenon is explained with election periods. According to the Bulgarian legislation, public authorities are prohibited to incur new debt for a period of a few months prior and after election time. Since ESCO model is still treated as public debt, it is affected by this imperative.

To complement the analysis of the observed period, let us look at the trend of investments in energy efficiency that utilize the ESCO model. Only 100 Million BGN (51 Million EUR) in 130 projects have been invested over a period of 10 years (see Figure 2). Nonetheless, there has been a strong positive trend in the beginning of the period worth mentioning (2009-2012). A clear sign of maturation of the ESCO market is seen in the face of contract value increases, as well as in the emergence of the practice for bundling several buildings under a single contract.

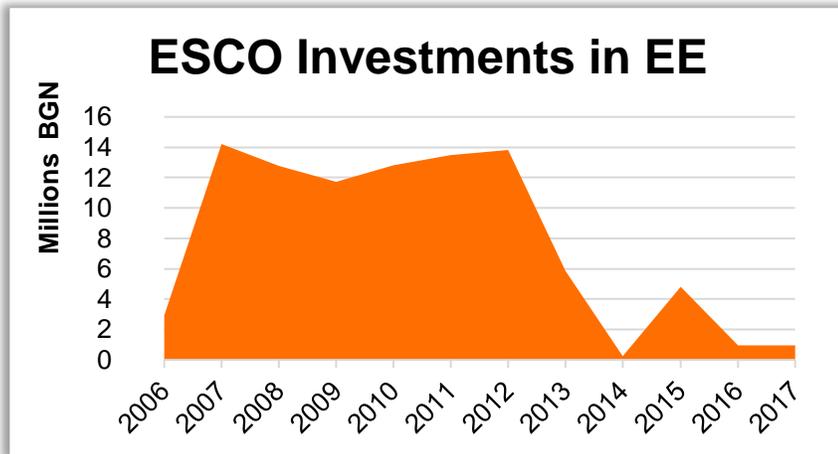


Figure 2

Despite the positive developments in the first few years, the investments in energy efficiency through ESCO nearly collapsed in the last part of the observed period. Under such circumstances it is of great interest to understand what caused such an abrupt change in the trajectory of ESCO business model development. Minor and major destructive forces that have started to act in that period are discussed in the next couple of paragraphs.

1. Minor obstacles

More stringent public procurement legislation and conservative ESCO regulation in the Energy Efficiency Act (EEA) started to come into force. Public procurement required clear and straightforward technical specification on the basis of which ESCOs to bid. In that way no chance had been given to ESCOs to compete on the project structuring and design side – something considered as their forte. The issue resulted in realization of suboptimal solutions in the small number of contracts realized at the time. The biggest problem was the lack of competence in public authorities to structure and conduct credible ESCO project tenders, exhibiting the properties of being economically feasible and contractually acceptable for both parties. Most of the public notices failed either due to lack of interest from ESCOs or after legal claims about their eligibility.

At the same time ESCO companies were prohibited to conduct energy audits on the assets (buildings, industrial systems etc.) they plan to realize energy saving measures on and guarantee the result. This prohibition practically disaggregated the whole concept of the ESCO business model – to deliver a turnkey solution for its clients, consisting of energy audit with feasible solutions, project design, and implementation.

2. Major obstacles

What severely affected ESCO development in Bulgaria was the total lack of compatibility between the ESCO mechanism and the numerous grant programs active in Bulgaria since its joining to the EU. Considering that in most of the cases the financial resource was 100% grant money, the ESCO model, being a market-oriented sustainable business model, was hardly considered. For example, around 15 energy efficiency grant schemes were active in the public sector in 2016 (see Figure 3), and even though ESCO statistics demonstrated at least 2 times higher value for money, the business model was still not preferred by the public sector entities. In essence, public authorities demonstrated strong inclination towards programming energy efficiency investments with public financial resources, e.g., grants, national budget etc., and avoided any blending with private capital.

Unfortunately, that negative tendency continues to persist nowadays under the Bulgarian Recovery and Resilience Plan, depriving the national economy from utilization of potential multiplicative and leverage mechanisms that could at least double the amount of financial resource available.

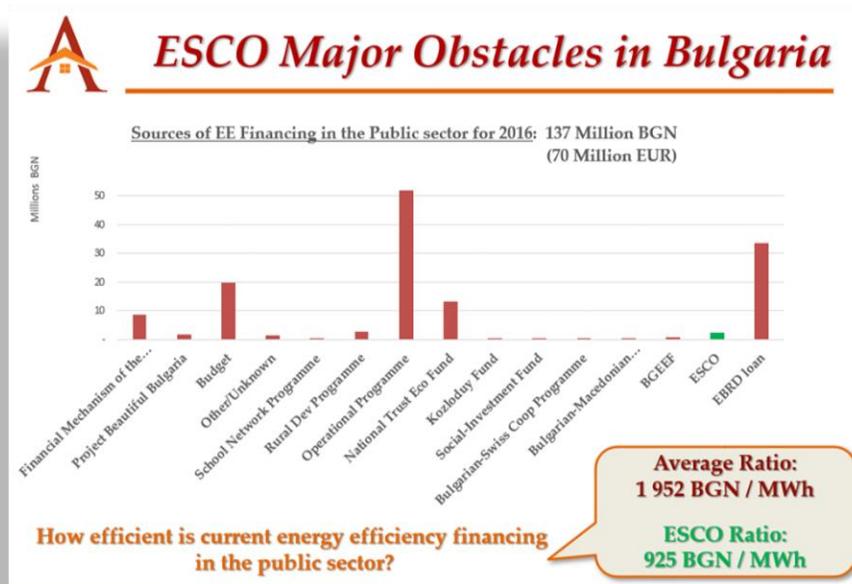


Figure 3

II. Current ESCO landscape

There are strong positive forces, starting to create momentum on the Bulgarian energy efficiency market, shaping a promising trend and outlining new opportunities.

Recent changes in the EEA oblige local energy traders to realize energy savings that should amount cumulatively by the end of 2020 to 2 772 GWh. The scheme will be prolonged till 2030 and probably extended even further, which guarantees a multibillion market for energy efficiency in Bulgaria. Energy traders are strongly encouraged by public authorities to cooperate closely with ESCO companies in their pursuit of reaching the set targets.

Additionally, the same Act sets obligations on the client side, bringing tens of millions sq. meters to the market for realization of energy efficiency measures. For example, government buildings stock is nearly 20 million sq. meters and has to improve every year in terms of energy efficiency parameters (see Figure 3). A set of obligations do also apply for the public street lighting systems as well as for buildings for public use with area over 250 sq. m.

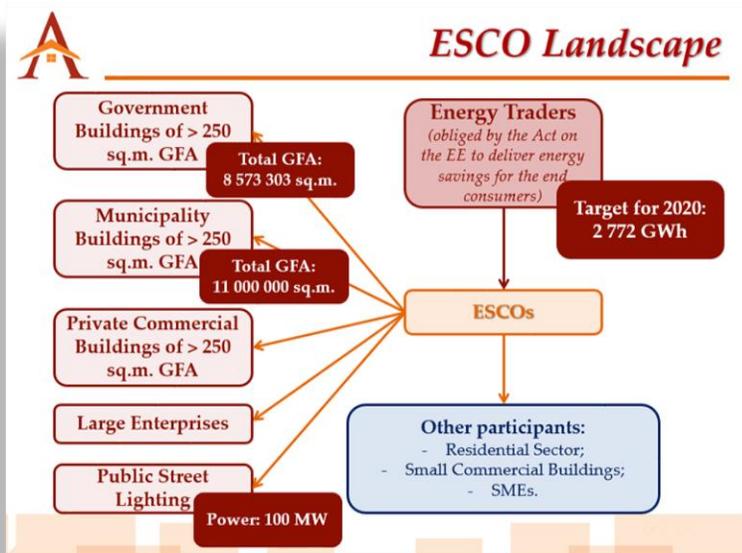


Figure 4

A very positive new development is the open data policy by Sustainable Energy Development Agency (SEDA), allowing for identification of investment ready energy saving opportunities owing to the Enerfund project. At this stage over 5 000 energy audits have been registered, prescribing investments of nearly EUR 800 million.

Important improvement for the ESCO business model will be introduced with the most recent changes in the EEA (at the time of this writing it has successfully passed through a second voting procedure through the Bulgarian Parliament). ESCOs will be given the chance to conduct energy audits on the assets they plan to implement energy efficiency measures on. In that way the whole chain of services required for a successful turnkey ESCO implementation would be restored.

Secondly, the financial resource needed for implementation of energy saving measures can come from the client himself. Until now only ESCOs have been responsible for the provision of financing – coming either from their pockets or third party (banks). In that way “guaranteed savings” ESCO model would become possible. Additional positive development would be the possibility for EnPCs to blend with grant resources.

Lastly, Energy Efficiency Directive would have a better transposition in the EEA. Current edit unfortunately caused problems in some cases with the credibility of forfeiting agreements on the basis of ESCO contracts.

It has to be stated that the above success would not have been possible without the joint effort of numerous market stakeholders, most notably the Alliance for Energy Efficiency (Bulgarian administrator of the European Code of Conduct), Bulgarian Industrial Association, and the H2020 FinEERGo-Dom project.

///. ESCO Perspectives

The Bulgarian Recovery and Resilience Plan (RRP) will shape the economic reality for the next few years. A big chunk of its multibillion financial resource has been dedicated to green economy, energy efficiency and building renovation. A central role has been foreseen for a Decarbonization fund which is expected to start operating in the beginning of 2023. It will consist of several sub-funds, one of which will be dedicated to working under the ESCO business model. Technical assistance is going to be also available for interested parties. At this stage not much detail is available. It has been announced that there is a project already initiated on a government level in cooperation with EU financial institutions that will take care of the final concept and fund's structure.

Another positive development is the fact that the ESCO business model has been clearly indicated as an eligible option in the RRP as a complementing mechanism to the 50% grant resource dedicated to the industrial sector. It still remains to be seen how much of the RRP will be transposed to the requirements of the actual programme itself.

On the flip side, the strategy for renovation of multifamily buildings in the RPP excludes completely the ESCO business model from being utilized. Again, as done in the past, 100% grant resource is envisioned to be disbursed to selected companies that will realize the renovation programme. The same is very probable to happen in the implementation phase of other renovation programmes, planned under the RRP- public street lighting retrofits, renovation of municipal and government hospitals, schools, social housing buildings, homes for the elderly, and municipal sports halls. The RRP has been very unclear in defining which financing mechanisms will be eligible, which poses a risk that in the final programme implementation 100% public financial resource might be required, excluding the opportunity for blending with private financial resources.

Despite all the barriers and obstacles, the Bulgarian ESCO business model continues to be well represented in the market, even though it has been often put in the position to compete directly with 100% grant financial resources.

Since the establishment of the AEE 5 years ago, a clear positive trend has started to emerge in the ESCO market. With the AEE leading role, improvements in the Bulgarian legislation system have been realized, unification and standardization of ESCO practices and procedures have started to materialize, the ESCO model has become more and more popular, and the benefits it brings to the private and public sector are now being widely recognised.

NEWS FROM THE EU LEVEL

EPBD 2021 REVIEW – ROADMAP & PUBLIC CONSULTATION

As announced in the Green Deal, the Commission presented its Renovation Wave communication on 14 October 2020, containing an action plan with concrete regulatory, financing and enabling measures, with the objective to at least double the annual energy renovation rate of buildings by 2030 and to foster deep renovations. The existing legislation will not suffice to achieve that goal; therefore, a revision of the Energy Performance of Buildings Directive (EPBD) is necessary as one of the vehicles to deliver on the Renovation Wave. This revision will focus on provisions that are central to delivering a Renovation Wave and that contribute to emissions reduction. The revision of the EPBD is part of the “Fit for 55 package” included in the Commission Work Programme 2021. While a more general consultation on the roadmap for the EPBD review ended on 22nd March, a detailed public consultation was launched on 30th March and will be running until 22nd June. The publication of the review proposal by the Commission is estimated in Q4 2021. More information and documents are available in the dedicated [webpage](#).

PUBLICATION OF JRC REPORT 2020 on Energy Performance Contracting in the Public Sector of the EU

The European Commission’s Joint Research Centre (JRC) has been regularly reviewing the status and development of the energy service markets of the EU Member States since 2005. [The 2020 report](#), published in March 2021, builds on the previous knowledge developed in previous EC JRC reports, and uses the same methodology to investigate national and subnational markets in terms of their status, barriers, driving factors, best practices, and impact of EU support and policies during 2017-2019. Ultimately, it proposes a set of recommendations of relevance for EU policymaking in the context of renewed impetus to building renovation, energy performance and financial sustainability.

ENERGY EFFICIENCY FIRST: GUIDELINES BY EU COMMISSION

As announced in the [EU Strategy for Energy System Integration](#), the Commission is currently developing guidelines on the Energy Efficiency First principle, which is intended to help policy makers and investors apply the principle in their decision-making process. In order to gather expertise and collect views on the approach to be followed, in February and March 2021 the Commission organised two dedicated stakeholder workshops, aimed at clarifying how to operationalise the principle and how to mainstream energy efficiency considerations into investment and policy-making decisions.

The guidelines, for which some preparatory documents were circulated among stakeholders, are expected to highlight, among other points, the multiple benefits of energy efficiency and the importance of integrating them into cost-benefit analysis, to allow an adequate comparison with supply-side solutions. The guidelines would also clarify how to apply and streamline the principle across various sectors, such as transport and ICT. While these topics were especially addressed during the first workshop on 24th February, the second one on the 18th of March mainly focused on the application of the principle in the financial sector and in public support schemes.

The publication of the guidelines is expected in June 2021, along with the “Fit For 55” legislative package.



PUBLICATIONS

- Latest publications from the **REFINE project**, focused on refinancing for energy efficiency services:
 - **Case Studies on Existing Refinancing Instruments for Energy Efficiency Services**
 - **Refinancing Market Assessment Report**
- New (2020) JRC Report on Energy Performance Contracting (EnPC) in the EU Member States' Public Sector:
 - **<https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/energy-performance-contracting-public-sector-eu-2020>**
- Final Report from the **QualitEE project**:
 - **<https://qualitee.eu/publications/final-report/>**