

Learning event on how to accelerate energy efficiency investments – Development of ESCO market and EPC

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Clarification, guidance, and recommendations on EPC involvement in achieving energy efficiency in public sector.

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Thank you for the information provided, I clearly see we missed to opportunity to have the LVIF in the loop of our work. I fully agree with the findings where there are barriers in the government sector. I would like to add some information from my side, too.

The EIB with the support from EU Commission programs have provided advisory services in Latvia:

- Development of an off-balance sheet model contract. We consulted with ESCOs, Altum and LABEEF. Approval by the Latvian Statistical Office and Eurostat was received. The contract has been not yet published. The Ministry of Economics is sitting on this for 2 years as far as I know.
- Providing a renovation strategy for VNI (State Real Estate Company) that maps the possibilities of EPC, EPC+grant, EPC+ own resources or Energy Efficiency-PPP. The report was well received, but due to change of staff nothing was taken forward by VNI.
- Regular exchange with Altum on ESCO finance including the use of EU funds for this purpose. We were able to receive an ok from the Commission on using ERDF and Cohesion Fund for forfeiting, originally it was considered not eligible.

Below I want to provide my point of view on the issues raised:

There is clearly a lack of real understanding of the basic concepts. EPC, ESCO and PPP seem to be entirely mixed up. Additionally, the whole discussion is about off-balance sheet treatment, the real deal of EPC “guaranteed energy savings”.

- Latvia’s policymakers participating in roundtable discussions organized by RoundBaltic have clearly indicated their resistance to developing playing field for ESCO services by characterizing ESCO model as complex and burdensome,

We have observed some general reluctance or even hostile resistance to EPC and ESCO in general. One should not forget that in the lighting sector there are already several small projects that were procured without greater difficulties (at least this is what LightHouse is telling me)

- requiring extensive EC and EUROSTAT approval process for every single ESCO contract to be undertaken by public sector and only worthwhile with multiple project bundling (minimum 50M EUR)

I disagree. The decision on on-or off-balance sheet treatment is with the Latvian Statistical Office and not with Eurostat. The statistical office may consult Eurostat in question of doubt as they have done with the initial model contract. In practical terms it works like this. There is an approved model contract and additional provisions in place and all contracts fulfilling this are considered off. There is no need to approve single contracts.

- providing easy pathway to borrowing for ESCOs is a threat to Latvia’s fiscal space,

If the rules from the Eurostat-EIB guide are followed there is no risk for the fiscal space. Even forfeiting has been accepted by Eurostat in case of Slovakia

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

There seems to be a clear confusion with PPP. Off-balance sheet EPC has an inbuilt protection against inflation. When the price for labour and material rises faster than the energy price the scope of off-balance sheet EPC is reduced. Without doubt the inflationary pressure generated by grants is much higher as builders usually charge higher prices if there are EU grants involved

- 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,

This statement misses the opportunities from EU grants to realise comprehensive renovation via off-balance sheet EPC. With energy savings alone comprehensive renovation cannot be achieved. Some countries, especially Czech Republic have very good experience with combining EPC and EU grants

- current Latvia's energy efficiency target (improve energy efficiency in 3% buildings per year) is met, so there is no reason for stress,

This is very much a top-down view. Bottom up this looks very differently with other public entities we talked to. VNI or the hospitals are very much interested to renovate their buildings in an effective way and without touching their balance sheets. It makes sense for their "business". Probably the same is true for municipalities, which want to improve their services and buildings.

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

The same is true in most other countries and in my opinion, municipalities should not build up the capacity for EPC procurement. Therefore, it is useful to build up facilitation services in the private sector that help municipalities in project scoping, design and during the procurement process. Other countries like Belgium and Czech Republic have positive experience with this and draw on ELENA support to finance the facilitation. To use private facilitators is also good because then the knowledge can be transferred from project to project, which is not the case if each municipality re-invents the wheel.

The EIB can help in a number of the above aspects. To be honest we have spent already quite a lot of time and energy on Latvia without any tangible result. To become active with any additional advisory or capacity building we would need a commitment from a high political level. I hope your event can help to mobilize such a commitment.

Best regards