FACILITATING THE IMPLEMENTATION OF ENERGY SERVICES IN THE WESTERN BALKANS

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ESCO Policy Dialogue “Preparing Contract Templates for EPC and ESC in 5 Western Balkan Countries“

REEP (Regional Energy Efficiency Programme) – funded by the EU’s Western Balkans Investment Framework (WBIF) and the Western Balkans Joint Fund, developed and run by EBRD.

Vienna, EECG, 14th Session, 28 June 2017
ESCO market and rationale for supporting it

German ESCO investments: €7.2 - 8.4 billion in year 2015

Sources: German State Agency BAFA, 2015
http://www.bfee-online.de/bfee/informationsangebote/publikationen/bfee_berichte_publikationen/bericht_bfee_06_15.pdf

Comparable figure for the WB Countries? 1 billion? … when?

Market potential for street lighting in Serbia only:
• Investment potential EUR 135 to EUR 255 million
• Annual cost savings potential of EUR 19 to EUR 34 million

Market Share of ESC and EPC?
ESC 90% …. EPC 10%
Figures reflecting both the private and public sector. Similar assessments for the region not available.
ESC = highly relevant … even if EPC share in public sector might be significantly higher.
1. Member States shall promote the energy services market and access for SMEs to this market by:

(a) disseminating clear and easily accessible information on:

(i) available energy service contracts and clauses that should be included in such contracts to guarantee energy savings and final customers’ rights;
The ESCO Policy Dialogue:

“Preparing Contract Templates for EPC and ESC in 5 Western Balkan Countries“: Objectives

- Accelerate the achievement of the above mentioned political objectives.
- Work towards having similar contract templates in order to create larger market
- Reduce transaction costs for ESCOs, which may otherwise by risk-avers

DELIVERABLES

- Legal analysis
- Street lighting EPC contract
  - Building EPC contract
  - Building ESC contract
Energy Services Contracting: EPC and ESC - common features

ESCO implements project

Client pays ESCO based on project Performance

Financial Institution

Loan

Debt Payment

European Bank for Reconstruction and Development

This project is funded by the European Union
Energy Performance Contracting (EPC): Some crucial issues

THE SAVINGS GUARANTEE MAKES THE EPC MODEL SPECIFICALLY SENSITIVE

- Adjusted baseline
- Ownership transfer
- Measurement and verification

- Installing more efficient appliances (such as bulbs, more efficient HVAC, etc.)
- Improving energy regulation
- Improving insulation of building envelope (roof, walls, windows)

PERFORMING ENERGY SAVINGS - AT SAME LEVEL OF COMFORT

Source: [Bleyl 2008] modified
Energy Supply Contracting (ESC)
Some crucial issues

- Guarantee of MINIMUM SUPPLY of useful energy (heat, steam, electricity ...), preferably from renewables
- M&V: MWh delivered (pay for OUTPUT OF USEFUL ENERGY), not fuel)
- Good business model for Renewables, CHP or heat recovery ...
- But: Limited to supply side efficiency

Exchanging boiler, improving boiler efficiency together with change of energy source

Solar Supply-Contracting => M Wh_{Solar}

ENERGY DEMAND MAY BE HIGHER THAN NECESSARY WITHOUT EPC MEASURES

Source[Bleyl 2009] modified
Energy Supply Contracting (ESC)

Some crucial issues

- Fuel
- Electricity

- Operation & maintenance
- Staff
- (Substitute) investment
- Repair

Present state / in-house

Total energy cost (CAPEX + OPEX)

Energy supply measures

- Share of construction cost (e.g. subsidies) or payment of residual value to Contractor

Energy price (€/MWh) (OPEX)
- Consumption cost (fuel, electricity)
  Price adjustment: e.g. gas-, oil-, biomass index

Service price (€/a, flat rate) (OPEX)
- Operation & maintenance cost, risk and profit
  Price adjustment: e.g. wage -, investment good index

Capital cost (in-house finance or TPF) (€/a)
- Investment cost + financing (CAPEX)
  Price adjustment: e.g. 6-month Euribor

Contract term (e.g. 15 years)

Source: after [Bleyl+Schinnerl 2008]
Lack of supportive organisational / institutional structures, (i.e. lack of capacities and lack of coordination of multiple jurisdictions)

Lack of flexibility in responding to innovative and tailor-made ESCO solutions (mainly procurement challenges)

Lack of financial attractiveness for carrying out ESCO projects in the Balkans (i.e. subsidised energy prices/tariffs, unpractical ownership regulations, taxes etc.)
Next steps in Project Procedures

**CONSULTANCY TEAM:**
• Agreement with EBRD about the first two countries to start still in summer.
• Development of first draft model contract.
• Development of an analysis with “most likely to be expected gaps” – as basis for a country-specific analysis.

**CONTRACTING PARTIES:**
• Provision of contact point for further communication and collaboration in each of the participating countries.
• Background information on the status achieved in respect to facilitating energy services in each of the participating countries.
Looking forward to cooperation and fruitful discussions!

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