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CONCEPT NOTE

Workshop

***“Opportunities and Challenges:
ESCOs in Romania - a solution to a wider accessibility to energy efficiency
measures especially in poor areas”***

organized by:

United Nations Development Programme
within the framework of

*“Improving Energy Efficiency in Low Income Households and Areas of Romania”
UNDP-GEF Project*

with the support of:

European Bank for Reconstruction and Development

17 November 2014

Bucharest, Romania

Workshop rationale:

This workshop aims at bringing together representatives of ESCO companies and stakeholders interested in ESCO type investment, including local municipalities, to discuss challenges of ESCO market in Romania with a particular focus on how to leverage ESCO in low-income areas as a mean of addressing fuel poverty, but also to discuss opportunities and identify recommendations for ESCO market enabling policies.

This meeting is one of the series of events on Energy Efficiency and Fuel Poverty - organized within the framework of the project **“Improving Energy Efficiency in Low-Income Areas and Households of Romania”**, funded by GEF and implemented by UNDP.

The event is supported by the presence of several technical experts invited as keynote speakers from EBRD office in Romania, UNDP Regional Center in Istanbul and WWF Hungary, presenting case studies and practical lessons learned aimed to raise awareness and contribute to

information exchange on feasibility of ESCO investments. Due to similarities of mandates and initiatives, UNDP has teamed up with EBRD in Romania for the organization of this event. UNDP project is also aiming to enable the exchange of lessons learned from different countries with more experience on fuel poverty policy work.

The workshop's focus on ESCO as a mean to stimulate energy efficiency measures, possibly alleviate fuel poverty and enable a wider access to financing energy efficiency measures, stems from UNDP/GEF project's objective of enabling energy efficiency in buildings measures in poor areas of Romania, facilitating access of poor households and municipalities to energy efficiency measures financing and supporting the development of appropriate norms and legal provisions that are aiming at alleviating fuel poverty, especially in the context of the transposition of the latest EU Directive 27/2012. EBRD's support to this event represents part of EBRD's efforts aimed at stimulating ESCO/EPC market in Romania and building trust in and awareness of its concepts.

The workshop aims at stimulating discussions that will also try to explore the feasibility of linking fuel poverty alleviation to ESCO type of investments in poor areas, as a potential way of financing energy efficient building retrofits and lower energy bills.

Fuel poverty in Romania is not an officially defined and acknowledged term, although reference to vulnerable consumers is being made in several legislative acts. UNDP/GEF project has increasingly advocated for adoption of an official fuel poverty definition and mainstreaming of adequate measures of addressing fuel poverty at national and local level through measures that gradually remove subsidies while putting in place an appropriate safety net for the poor and increasing energy efficiency buildings performance.

Part of UNDP/GEF and EBRD's works in Romania is represented by the focus on the development of innovative financial mechanisms for energy efficiency measures, such as ESCOs.

Background

The growth of ESCO market in Romania is known to be the result of improved legislation as of 2011 and facilitation mechanisms by EBRD, World Bank/GEF, UNDP/GEF, USAID, etc. in the form of financial incentives, loans, technical assistance and information dissemination. According to the latest European Commission's ESCO Market Report (2013), the current and planned ESCO projects in Romania use BOOT approach or Energy Supply Contracting. The BOOT contract proved its feasibility both in implementing and operating cogeneration based ESCO projects.

EPC (Energy Performance Contracting) is a form of "creative financing" which allows funding energy upgrades from cost reductions. Under an EPC arrangement an external organization (ESCO) implements a project to deliver energy efficiency or a renewable energy project, and uses the stream of income from 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. The approach is based on the transfer of technical risks from the client to the ESCO based on performance guarantees given by ESCO. In EPC, ESCO remuneration is based on demonstrated performance, a measure of performance is the level of energy savings or energy service. EPC is an instrument to deliver infrastructure improvement in buildings to facilities that lack energy engineering skills, manpower of management time and capital funding. Cash-poor yet creditworthy customers are therefore good potential clients for EPC. Local authorities in poor areas of Romania may be potential EPC type of investments customers, as means of increasing building performance and addressing fuel poverty of poor households.

According to EC report, EPCs in Romania are still rare, mainly due to the reluctance of potential clients, primarily hesitations coming from public sector/local authorities.

Some public lighting projects have been implemented and stand for a good model to follow yet building rehabilitations are not common.

EBRD has focused on boosting ESCO/EPC type investment through a dedicated project since 2013, which focuses on intensive information dissemination about EPC, analysis of legal and policy framework and secondary legislation, as well as trainings discussion with stakeholders, development of model contracts and demonstration pilots. These efforts are directed towards local authorities that can benefit from EPC projects.

However, although primary legislation enabling ESCO's and EPC's is in place, secondary regulations, norms and methodologies need to be developed or further adjusted especially with enabling provisions for poor local municipalities that are unable to invest in energy efficiency measures.

Although the link between ESCOs and fuel poverty is not readily apparent, directing and facilitating ESCO type investments in poor areas can materialize in more building modernization and subsequent increase in building energy efficiency performance and decrease of electricity bills. In the process of energy markets liberalization electricity and natural gas tariffs and the share of vulnerable consumers are expected to increase significantly. As a solution, Performance Contracting with ESCO's can help local authorities to overcome numerous existing barriers in their attempt to alleviate fuel poverty by transferring some projects' risks, limiting public debt, improving projects' performances by using knowledgeable specialists to design and implement energy efficiency projects, etc. In other European countries, innovative concepts and mechanisms have been developed in order to broaden ESCO's market (delivery contracting, energy management contracting, comfort contracting, energy service plus contracts, integrating energy contracting, etc.). Also, new mechanisms have been developed in the financing process of ESCO projects. All these are useful to be considered in building public energy efficiency projects.

In Romania the ESCO business development process is still slow and difficult, due to constraints such as: lack of awareness and trust in ESCO concepts, lack of supporting secondary legislation

that enables ESCO type investments, local municipalities reluctance to engage in such projects and importantly banking sector's reluctance in providing investments support as the financial potential in energy efficiency projects is not something that the bank sector sees immediately as profitable.

The ESCO market in Romania has increased during the last years; however it is still relatively small and with a potential to develop. Trainings, education, awareness activities are needed as means of creating the necessary knowledge and information base on the benefits of these investments.

This workshop therefore aims at supporting these efforts by presenting case studies and lessons learned and discussing opportunities for multiplying ESCO investments in Romania tapping also the rich EBRD experience and finding a way to tackle energy efficiency and fuel poverty to the extent possible.