Third party financing of energy efficiency services

According to Transparense Training Module 4

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OVERVIEW OF TRAINING MODULES

www.transparense.eu/eu/trainings/training-modules

I. EPC Basics

II. EPC Process – from Project Identification to Procurement

III. EPC Process – from Contract to Guaranteed Savings

IV. EPC Financing

V. EPC Support Strategy

4. EPC Financing
Financing of energy efficient projects

- Own financing (equity)
- With a credit form a bank (third party financing)
- (Additional) financing from national or international subsidy programmes and schemes
- Energy Performance Contracting (EPC) => EPC itself is an alternative financing mechanism

4. EPC Financing
Introduction

- An ESCO is not a financial institution (FI)
- So an ESCO does not necessarily arrange financing of an EPC project
- BUT: ESCOs may offer financing as an additional element…
  - … if the client wishes.
  - … at certain cost.

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4. EPC Financing
Financing from a client's perspective (1)

- Keep financing costs as low as possible (low interest rates…)
- Reduce collaterals as much as possible
  - Preferably project based finance
  - → future project revenues as main "collateral"
- Legal implications
  - Change of financing terms during contract period → at which cost?
  - Property aspects (*generally* borrower is legal owner)
  - Clarification of ownership DURING the EPC and transfer of ownership AT THE END of term

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4. EPC Financing
BUT: there is also the ESCO's perspective

- Also the ESCO faces…
  - financing cost
  - credit limits
  - collateral limits
  - taxation issues
  - etc.

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4. EPC Financing
Bringing client and customer together!

- Consultation of a facilitator is of help
- Optimal financing structure of EPC-projects need to be defined in collaboration between client and ESCO.
- Looking at financing costs is not enough.
- Go through the whole demand profile (see Bleyl, p17)

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4. EPC Financing
Different financing options

- A. Credit financing
  - A.1 Third party financing: ESCO borrows credit from lender
  - A.2 Third party financing: Client borrows credit from lender
- B. ESCO financing
  - Financing with internal funds (equity) of the ESCO and may involve use of its own capital
  - Or additional funding through other debt or lease instruments
- C. Customer’s financing
  - Involves financing with internal funds of the client
  - Backed by an energy savings guarantee provided by the ESCO
- D. Other financing options

4. EPC Financing
A.1 ESCO borrows credit from lender

- The ESCO
  - Borrows the credit and ensures financing of the EPC project in its own name
  - Challenge: ESCO bears the whole risk of project failure, even if the cause was out of its control
- The customer
  - Is not directly in touch with the investor / lender (usually a bank)

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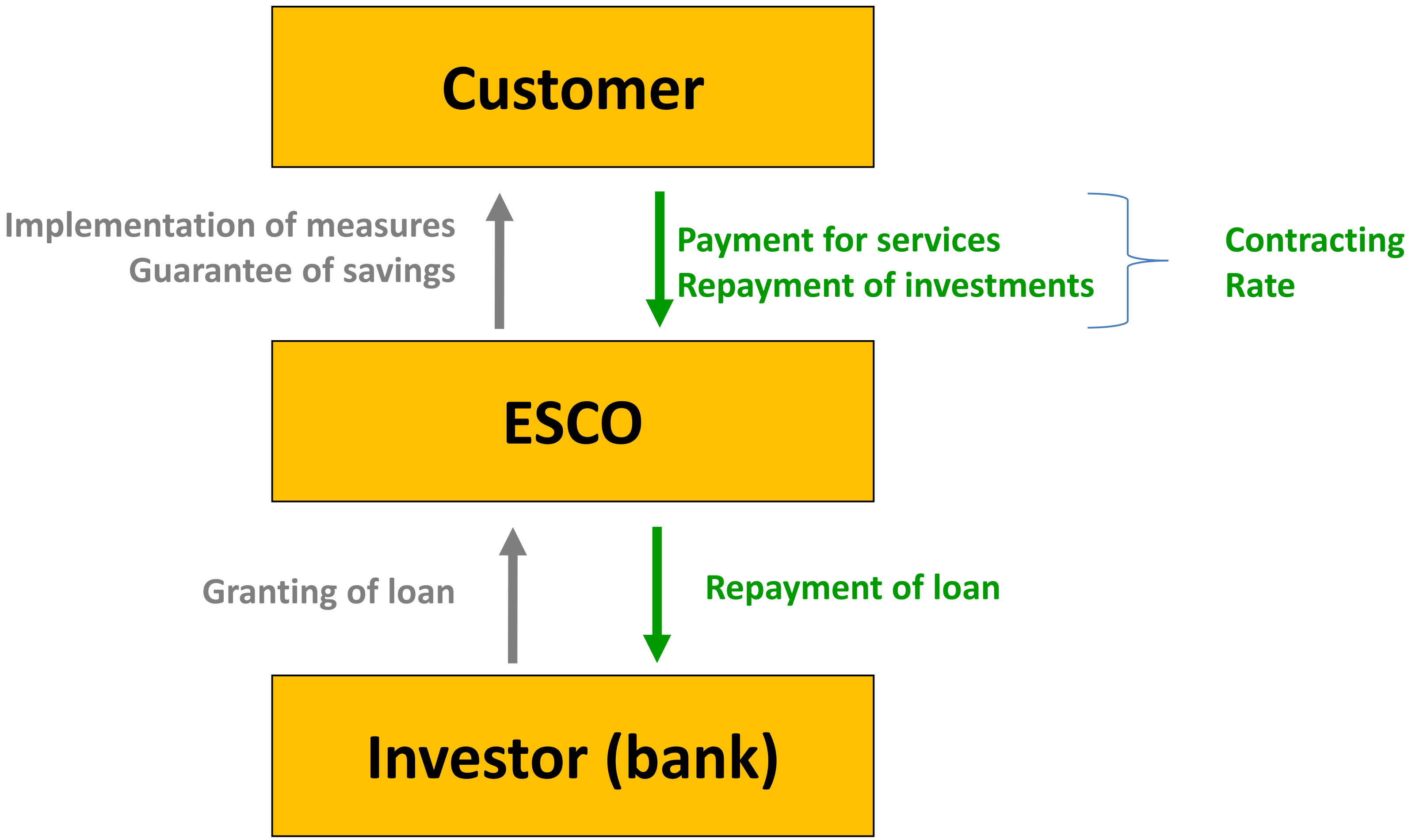
4. EPC Financing

A.1 ESCO borrows credit from lender



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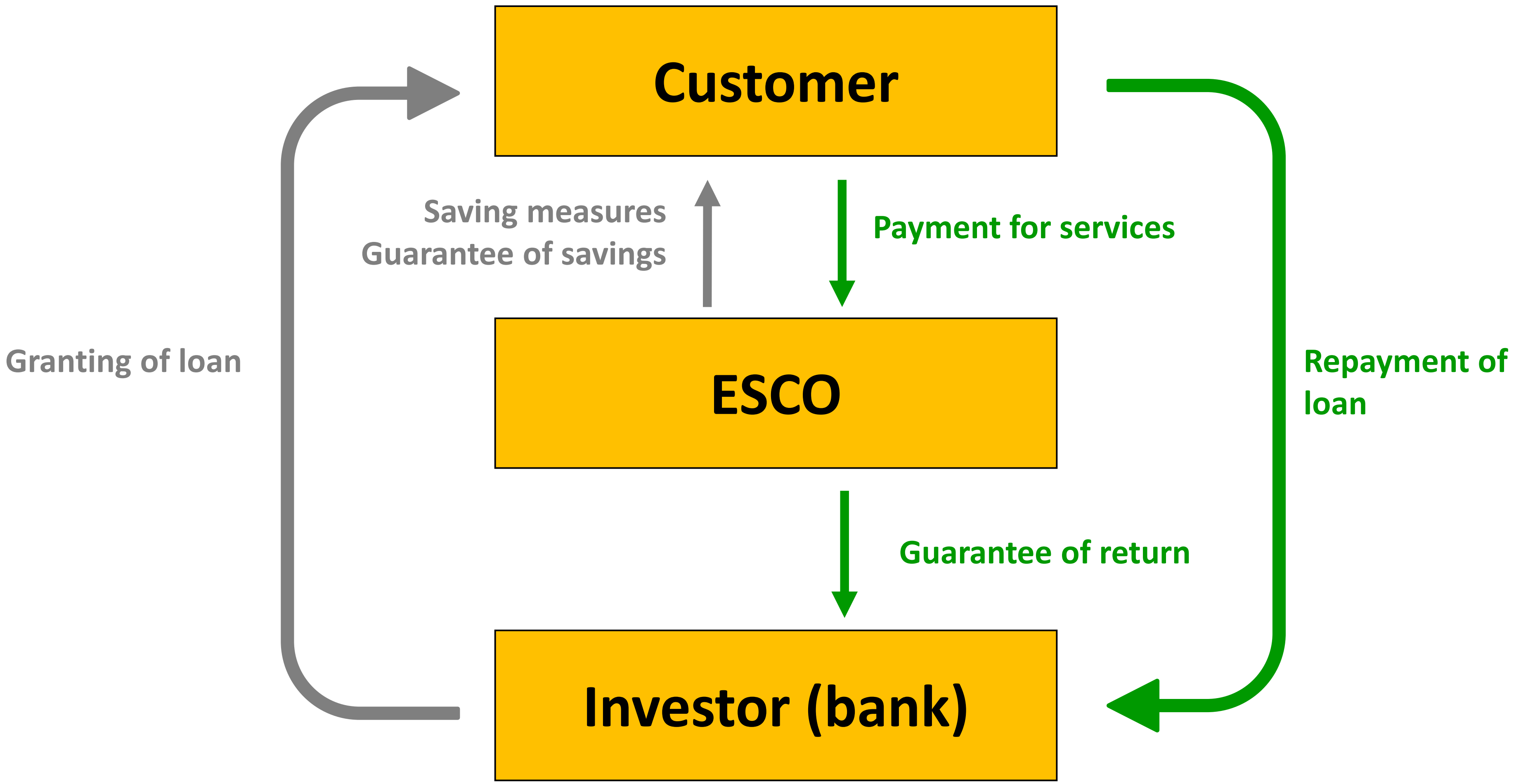
4. EPC Financing
A.2 Customer borrows credit from lender

- The customer
  - Concludes a contract directly with the source of financing (usually bank)
- The ESCO
  - “Only” guarantees the achievement of technical parameters of the project
  - Savings are guaranteed by ESCO and backed by a payment obligation in case of non-performance (difference will be paid)

4. EPC Financing

A.2 Customer borrows credit from lender



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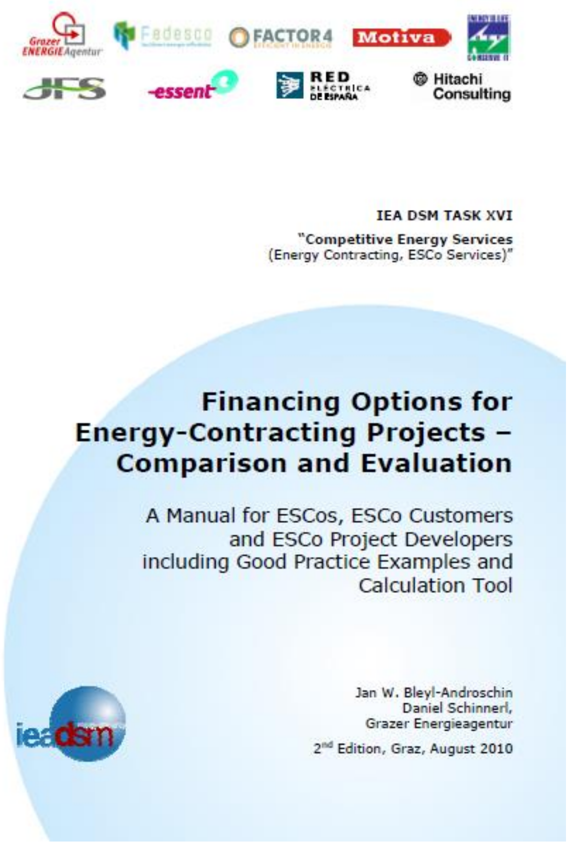
4. EPC Financing
Lessons learned from hist. development

- Initially, EPC projects were mostly financed by the customer acquiring credit from a bank (third party financing - A.2)..
- Later, EPC market developed, the bank sector became accustomed to the EPC schemes:
  - Customer credits (A.2) became rare
  - More and more ESCOs were taking credit from a bank (A.1)
  - For a few small projects ESCOs provided financing from their sources (B)
- In the last 5-6 years, the sale of claims (cession) by ESCO to a bank has become the most used method of third party financing (A.1).

4. EPC Financing
Manual on Financing Options + Examples



Financing Options for Energy-Contracting Projects – Comparison and Evaluation

A Manual for ESCos, ESCo Customers and ESCo Project Developers including Good Practice Examples and Calculation Tool

Bleyl et.al., Graz, August 2010

IEA DSM Task 16 Competitive Energy Services (Energy Contracting, ESCo Services)
http://www.ieadsm.org/ViewTask.aspx?ID=17&Task=16&Sort=0

Thank you!

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