Energy Performance Contracting Plus

Minutes of 1st workshop

Greece

English language

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www.epcplus.org

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Content

1st workshop: About the EPC+ project and market assessment

a) General information

Title of the event: About the EPC+ project and market assessment

Organized by: Centre for Renewable Energy Sources

Date: 17th September 2015

Duration: 13:00 – 17:00

Location: [redacted]

Invited participants:

- [redacted] **(SPIN partner)**

  Contact Person: [redacted] CEO

  Specialization of company: Energy Services Company

- [redacted] **(SPIN partner)**

  Contact Person: [redacted] CEO

  Specialization of company: Engineering consultants specialized in indoor and outdoor lighting

- [redacted] **(SPIN partner)**

  Contact Person: [redacted] CEO

  Specialization of company: Engineering consultants specialized in heat pumps and industrial waste heat recovery applications

- **Centre for Renewable Energy Sources and Energy Saving (Facilitator)**

  Contact Person: Aristotelis Botzios-Valaskakis, In-house consultant

  Specialization of company: National Research Centre for Renewable Energy Sources and Energy Saving

- **Hellenic Chamber of Commerce and Entrepreneurship (Facilitator)**

  Contact Person: George Tsolakis, In-house consultant

  Specialization of company: Hellenic Chamber of Commerce and Entrepreneurship

b) Agenda of meeting

1. Presentation of the project and its ideas (CRES)

2. Internal market analysis (SPIN members - discussion)

3. Type of SPIN to be established – roles of partners (SPIN members - discussion)

4. Target group (SPIN members - discussion)

5. Next steps (SPIN members - discussion)

c) Questions to be answered

1. Threat of New Entry:

   - **What's the threat of new businesses starting in this sector?** Due to the small size of the individual SMEs and their relatively low energy consumption and, therefore, their low profit margin, there is little interest for this target sector. Even if new businesses do start, the SPIN will have the competitive advantage due to its early start.
   - **How easy is it to start up in this business?** The standard procedures for setting up a consulting company apply. There are no special restrictions.
   - **What are the rules and regulations?** The standard procedures for setting up a consulting company apply. There are no special restrictions.
   - **What finance would be needed to start-up?** The standard finance for setting up any type of consulting company apply. There are no special restrictions.
   - **Are there barriers to entry which give you greater power?** No.

2. Buyer Power: Where there are fewer buyers, they often control the market. Questions here include:

   - **How powerful are the buyers?** Due to the 6-year economic recession in Greece, the buyers are currently in a dire financial situation and therefore very weak.
   - **How many are there?** There are many very small and small commercial enterprises in Greece. They are actually prevalent in almost all aspects of the Greek economy.
   - **Can the buyers get costs down?** The buyers are very hard bargainers and very experienced in this domain. There can be no doubt that they will drive a hard bargain.

- **Do they have the power to dictate terms?** They will try, but we do not think that they will be successful. The SPINs main task will be to convince them of the benefits.

3. Threat of Substitution: If there are available alternatives then the threat of substitution increases.

    - **How easy is it to find an alternative to this product or service?** There is no current alternative to this service, although this may change in the future.
    - **Can it be outsourced? Or automated?** Not presently.

4. Supplier Power: Markets where there are few suppliers means the suppliers retain the power

    - **Examine how many suppliers are in the market?** There are mainly suppliers in the market offering energy efficient lighting fixtures and controls, heat pumps and industrial waste heat recovery equipment.
    - **Are there a few who control prices?** No, there is significant competition.
    - **Or many so prices are lower?** Yes, there are many and the prices tend to be decreasing continuously and the competition increases.
    - **Do your suppliers hold the power?** No.
    - **How easy is it to switch, what's the cost?** This is not considered to be difficult.

5. Competitive Rivalry: Markets where there are few competitors are attractive but can be short-lived. These are highly competitive markets with many companies chasing the same work reduce your power in the market.

    - **What's the level of competition in this sector?** There is currently very little competition in this sector.
    - **What's the competitor situation? Many competitors and you're all in a commodity situation or a few?** There are many competitors, but none have managed to implement project with energy performance contracts yet.

From the outcomes of the questions above, please make a SWOT analysis:

Strengths	**Weaknesses**
▪ SPIN partners' areas of expertise complement each others and are not competitive. ▪ SPIN partners will "share" their personal clients with the partnership. ▪ Long-term mutual agreement of the SPIN partners (with an MOU) will increase trust and stimulate	▪ After the implementation of the pilot projects, competitors will soon appear. However, the SPINs will have the market advantage as they will have had a head-start. ▪ Financial institutions are currently not interested or, in the best case, hesitant, regarding the funding of

collaboration and transfer of know-how. ▪ Simple, low-cost, standardized energy service packages with EPC are more attractive to clients when compared to complex and more expensive solutions. ▪ The solutions proposed will be low-cost and may even be funded with own funding by the enterprises.	low-budget projects such as the ones proposed by the partnership. ▪ Financial institutions are currently not interested or, in the best case, hesitant, regarding the funding of EPC-type contracts. ▪ Unfavourable market conditions due to the 6-year economic recession in Greece, the bank capital controls that are currently in force, and the recapitalization needs of the banks following Greece's bailout deal after its near-bankruptcy in July 2015.
Opportunities ▪ The target sector (very small and small commercial enterprises) currently has no access to energy performance contracting services. ▪ Greece has a very large amount of very small and small commercial enterprises. ▪ The replicability potential of the elaborated standardized energy service packages in the target sector will be considerable due to the similarities of many of the SMEs. ▪ The target sector (consisting of very small and small SME) prefers to collaborate with local SMEs as these are considered to be more approachable and "friendly" and tend to better understand their particular requirements. ▪ The target sector is of little interest to large enterprises/ESCOs and multinationals. ▪ The participation of HCCE during the duration of the project will allow the clients to have better access to the clients of the target sector. ▪ The dissemination activities of the EPC+ project may aid the clients and financial institutions to overcome their "hesitancy", mainly for marketing reasons.	**Threats** ▪ Retention of know-how of the SPIN partners due to mistrust if the partnership does not work correctly. ▪ Interest of own company may be seen as more important than the success of the SPIN if the partnership does not work correctly.

- About the SPIN

- **What makes you stronger through collaboration?** The SPIN combines the technical knowledge of three companies with three different areas of expertise, operating in different markets. By collaborating, they therefore complement each other's work and are not competitive to each other. [redacted] is an energy services company that has significant experience in the domain of energy efficiency and renewable energy consulting. More importantly, they are very knowledgeable regarding energy performance contracts and will use this experience in order to elaborate the new, energy performance contracts of the SPIN. [redacted] is an engineering consulting company specialized in indoor and lighting solutions. [redacted] is an engineering consulting company specialized in heat pumps and industrial waste heat recovery solutions.

- **What is the aim/objective of your SPIN?** The main aim/objective of the SPIN is to combine the knowledge of each of the partners in order to provide joint energy services with energy performance contracts to very small and small commercial enterprises as well as SMEs active in the food and drinks industrial sector. Due to the existing activity of each of the partners in the aforementioned sectors, they will also bring their individual clients to the partnership.

- **Is there a common understanding that one or two pilot projects need to be carried out and organisational tools have to be applied?** Yes, there is such a common understanding. For exactly this reason, they have already stated drafting a Memorandum of Understanding that will explicitly describe the roles and obligations of each of them. This text is expected to be finalised by the end of October, and signed by the end of the year.

- **What is/are the focus areas of the SPIN?** The newly-developed SPIN partnership has decided to target very small and small commercial enterprises as well as industrial SME's active in the food and drinks industry. The reasons for choosing these target groups are the following:

Very small and small commercial enterprises	Food and drinks industry SMEs
1. They currently have no access to energy performance contracting services. Furthermore, the large enterprises and multinationals that may enter the energy services market in the near future will not be interested in this sector due to the small size of the individual SMEs and their relatively low energy consumption and, therefore, their low profit margin.	1. They currently have little access to energy performance contracting services. Furthermore, the energy services currently being proposed to them regard middle to high-cost investments of considerable complexity that are usually difficult to monitor and verify. This therefore deters them from deciding to adopt such solutions.
2. Greece has a very large amount of very small and small commercial enterprises.	2. The low-cost investments proposed by the SPIN do not interest large enterprises and multinationals that may enter the energy services market in the near future due to their small investment magnitude and, therefore, relatively low profit margin.
3. The replicability potential of the elaborated standardized energy service packages will be considerable due to the similarities of many of the SMEs.	3. Greece has a large amount of SMEs active in the food and drinks industry.
4. The owners of these enterprises prefer to collaborate with local SMEs as these are considered to be more approachable and "friendly" and tend to better understand their particular requirements.	4. As SMEs of the food and drinks industrial sector are not very energy intensive, energy costs as a percentage of their overall operational costs, are relatively low. As a result of this, most of the electro-mechanical installations suffer poor service and are usually highly inefficient and

	therefore offer significant potential for energy saving.
5. The presence of HCCE as a facilitator in the partnership will help the partnership to contact and approach the HCCE members much more efficiently.	5. [redacted] (SPIN technical partner) has numerous clients in this sector which they can bring into contact with the new SPIN partnership.
6. Due to the country's six-year economic recession and strict austerity measures imposed upon the economy, most of these commercial enterprises are facing increasing operational costs (due to the increase in taxation) and decreasing demand (due to the financial problems that the population is facing). Therefore, they currently look very favourably towards low-cost and very simple energy efficiency investments that can help them to reduce their operational costs and to also increase the quality of their offered services (e.g. by improving the lighting conditions in their enterprises).	

Table 1: Reasons for choosing the selected target sector

The SPIN intends to offer energy services related to: (a) energy efficient lighting, (b) energy efficient production of hot water, heating and cooling (i.e. heat pumps) and (c) waste heat recovery industrial applications (i.e. ceramic heat exchanger for flue gas heat recovery, steam boiler blow-down heat recovery).

- **Which type of SPIN (simple, complex, complicated) are you going to choose potentially**? The SPIN will commence as a complex SPIN, with three main technical partners ([redacted]) and two facilitators (CRES, HCCE). The role of the facilitators will be to provide, where possible, support to the technical partners, to also aid the partnership allowing them access to their significant communication network and, finally, to disseminate their achievements.

- **Are there further SPIN partners required**? No, no further technical partners are required. However, if the venture is successful, then the current consortium may consider expanding its partnership. On the other hand, the inclusion of a financial institution in the SPIN partnership would be greatly welcomed.

- **Are there any resource and capability gaps?** The main resource gap for the partnership is the one related to the potential Third-Party-Financing of the projects. Due to the controls on banking activities (i.e. capital controls) that are currently in force due to the country's near-bankruptcy, access to any kind of financing is virtually impossible until the banks are refinanced as foreseen by the last bailout of the Greek economy by its creditors. Realistically speaking, access to financing is not expected to occur until the second half of 2016 (i.e. June 2016). Therefore, until then, the SPIN shall have to target enterprises willing to fund investments with own resources, or, alternatively, by finding suppliers willing to supply equipment on credit. In the meantime, CRES and HCCE, as facilitators will approach financial institutions and try to convince them to fund a few small, pilot projects with energy performance contracts as soon as they are allowed to commence financing activities. Their main argument to the financial institutions will be that these pilot projects are being implemented within the framework of the HORIZON 2020 programme in 11 other countries and will therefore provide ample "advertisement" for the institution via the dissemination activities of the EPC+ project. Furthermore, by trying this new investment approach with the pilot projects, the banks will have to opportunity to determine the suitability of this new, low-risk, innovative investment packages and, if successful, provide new differentiated investment products to the market. Within this context, the pilot projects will be a significant "showcase".

- **What are the potential roles of each partner?**
  - **Who is able to do what?** [redacted] will be the lead partner, will provide its expertise in energy performance contracting and will also aid the other partners technically, wherever required. [redacted] will provide its technical expertise in indoor and outdoor lighting energy-efficiency solutions. [redacted] will provide its technical expertise in heat pumps and industrial waste heat recovery energy-efficiency solutions. For the duration of the project, CRES will act as facilitator, attending all partnership meetings, meetings with financial institutions and also disseminating the activities of the partnership. For the duration of the project, HCCE, will help the partnership in contacting its members.
  - **Who is not able to do what?** The SPIN partners will not intervene in the area of expertise of each other. CRES, as the national research centre cannot participate in the SPIN after the termination of the project, as this would give the SPIN an unfair competitive market advantage over their competitors. The same applies for HCCE.
- **How should/could the SPIN approach the client? One-face-to-the-customer? Different persons?** The SPIN partners that already have past experience with specific clients, or have their own clients, should approach them personally and then introduce them to the SPIN partnership and in due course, explain to them how the partnership operates. On the other hand, all new clients shall be approached by the Lead partner, [redacted]
- **Who should be the main contact for the client.** See above.

Annex: 1st workshop

Invitation and Agenda

Pictures

List of participants and signature