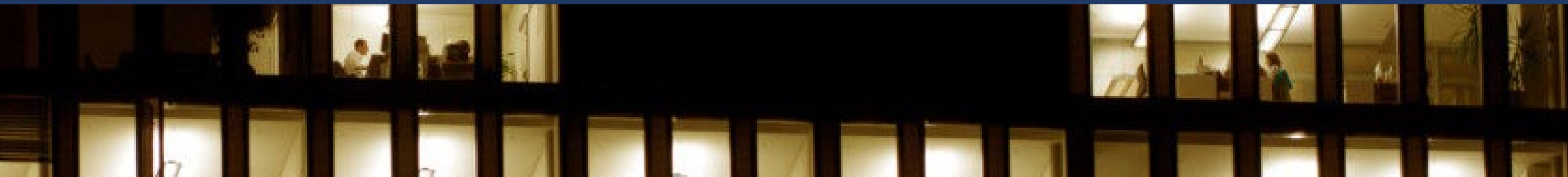


Incorporating ESCOs in Nationally Determined Contributions

Søren E. Lütken
chairing the Global ESCo Network

The Global ESCO Network:

- Formally established in 2019 - Commencing activity mid 2020
- Anchored in UNEP DTU Partnership /Copenhagen Centre on Energy Efficiency / Efficiency Valuation Organization
- Created to bring ESCO on to the global climate change agenda through a concerted effort backed by all existing ESCO associations
- Currently organizes 29 out of 38 national and regional ESCO associations - and counting
- Initiates research and policy advocacy in global and national fora
- Runs a series of monthly webinars of which today's webinar is the fifth



Incorporating Energy Service Companies in Nationally Determined Contributions

The potential of ESCOs for meeting the climate goals
in the Paris Agreement



UDP Perspectives
series 2020

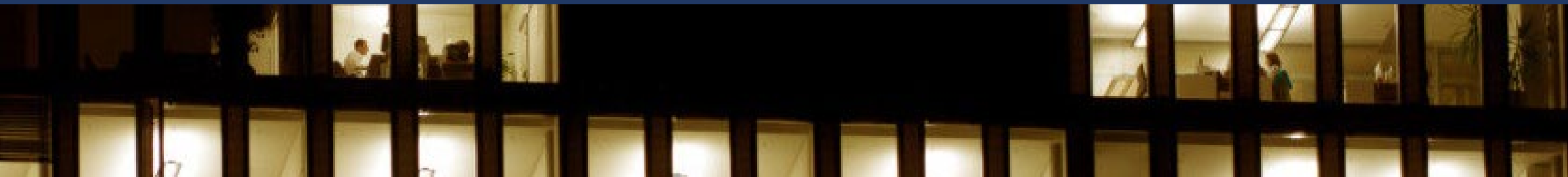
https://c2e2.unepdtu.org/kms_object/incorporating-energy-service-companies-in-nationally-determined-contributions-the-potential-of-escos-for-meeting-the-climate-goals-in-the-paris-agreement/

We believe

- that ESCOs are the instrument that makes energy efficiency potentials tangible
- that ESCOs have been overlooked in international climate change advice
- that ESCOs offer the best returns of any climate change motivated action
- that ESCOs in many cases are labour intensive and offer great opportunities to build back better after Covid-19 - with a focus on 'green' and climate change

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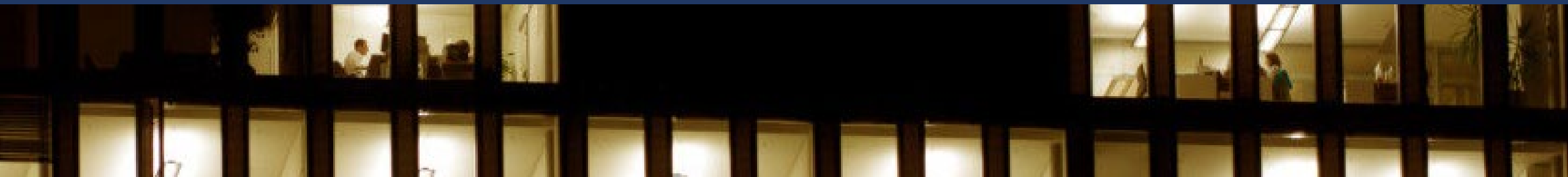
• 5 years ago ...



Nationally Determined Contributions

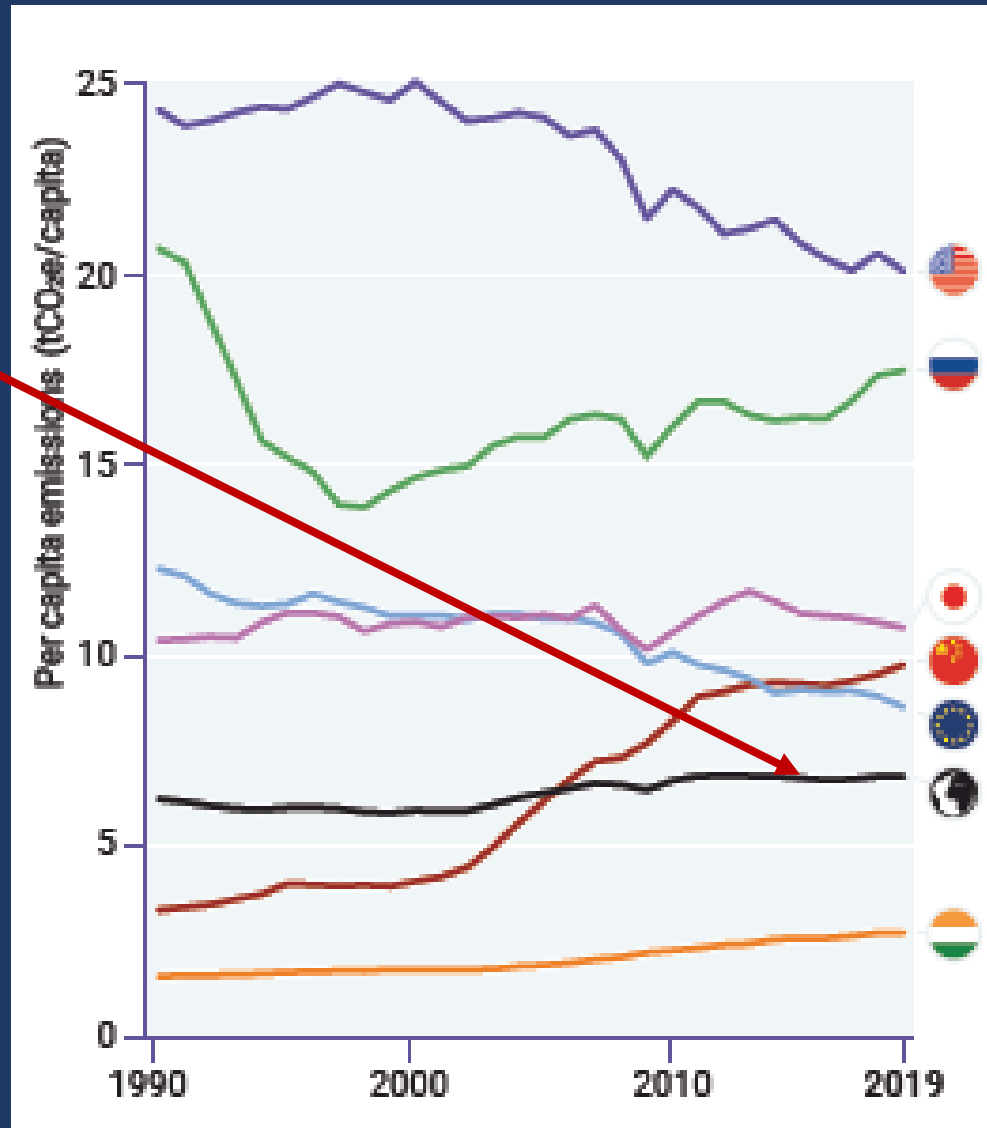
- By 2030, annual emissions need to be **15 GtCO₂e** lower than current unconditional NDCs imply for a 2°C goal
- ... and **32 GtCO₂e** lower for the 1.5°C goal.
- And we are already **3 GtCO₂e short** compared to the unconditional policies
- The emissions gap has not been narrowed compared with 2019 and is, as yet, unaffected by COVID-19.

(UNEP: 2020 Emissions GAP Report)



Efficiency gains do not keep up...

UNEP: Emissions
GAP Report 2020

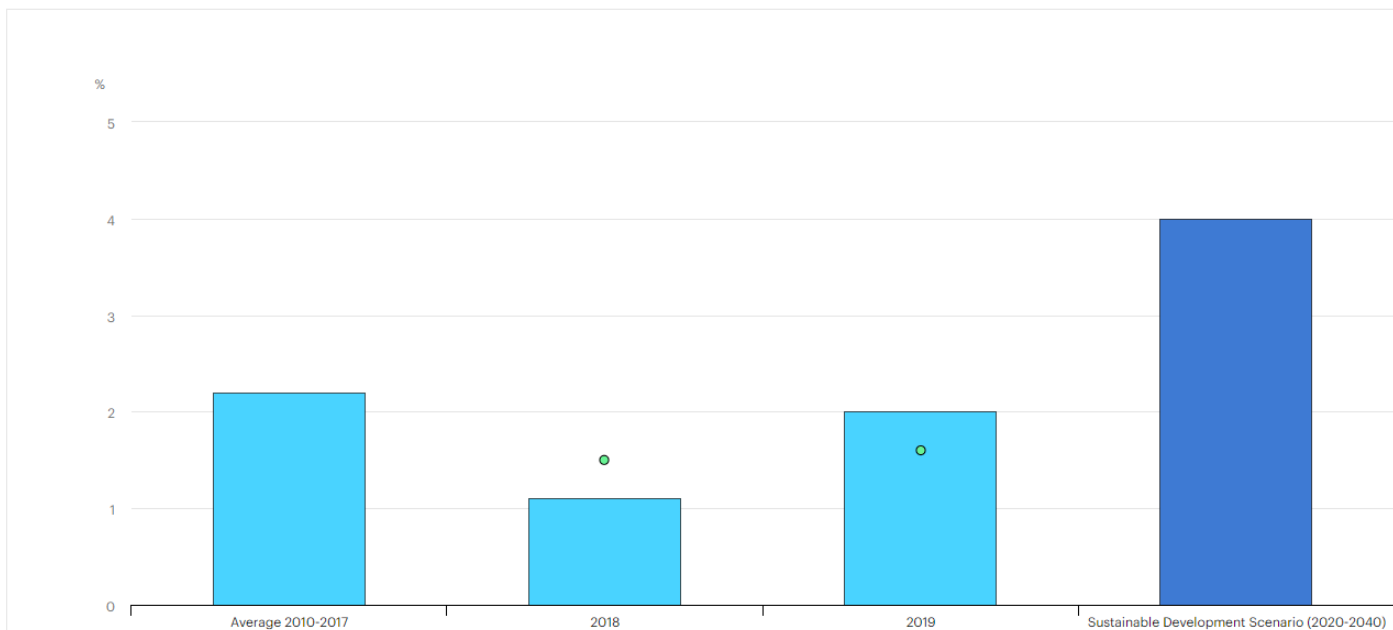




Average annual change in primary energy intensity improvement, historically and in the Sustainable Development Scenario, 2010-2040

Last updated 2 Dec 2020

[Download chart](#) ↓

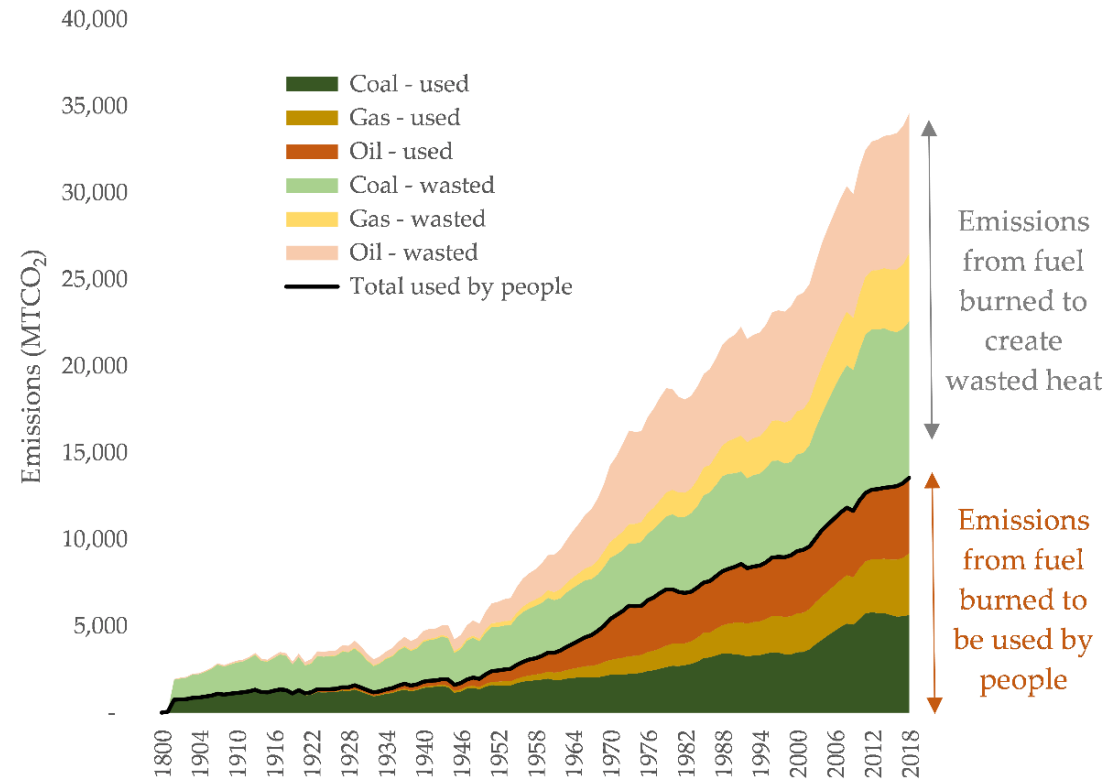


Even if there is plenty of wasted energy to exploit...

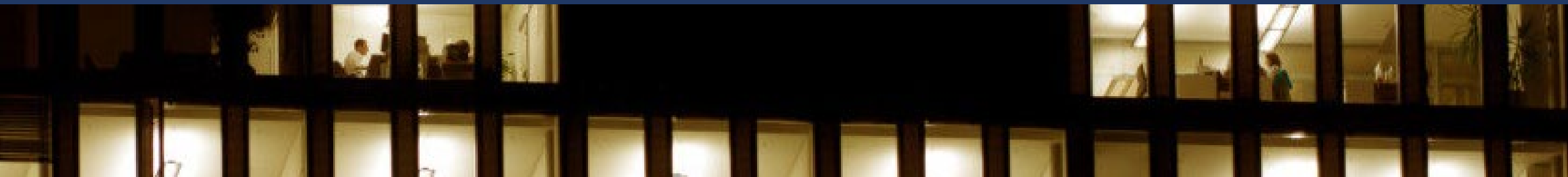
Source:
Ketan Joshi 2020

Most energy, and therefore emissions, from fossil fuels goes to waste as it is burned
If fossil fuels were 100% efficient, emissions would be today what they were in 1970

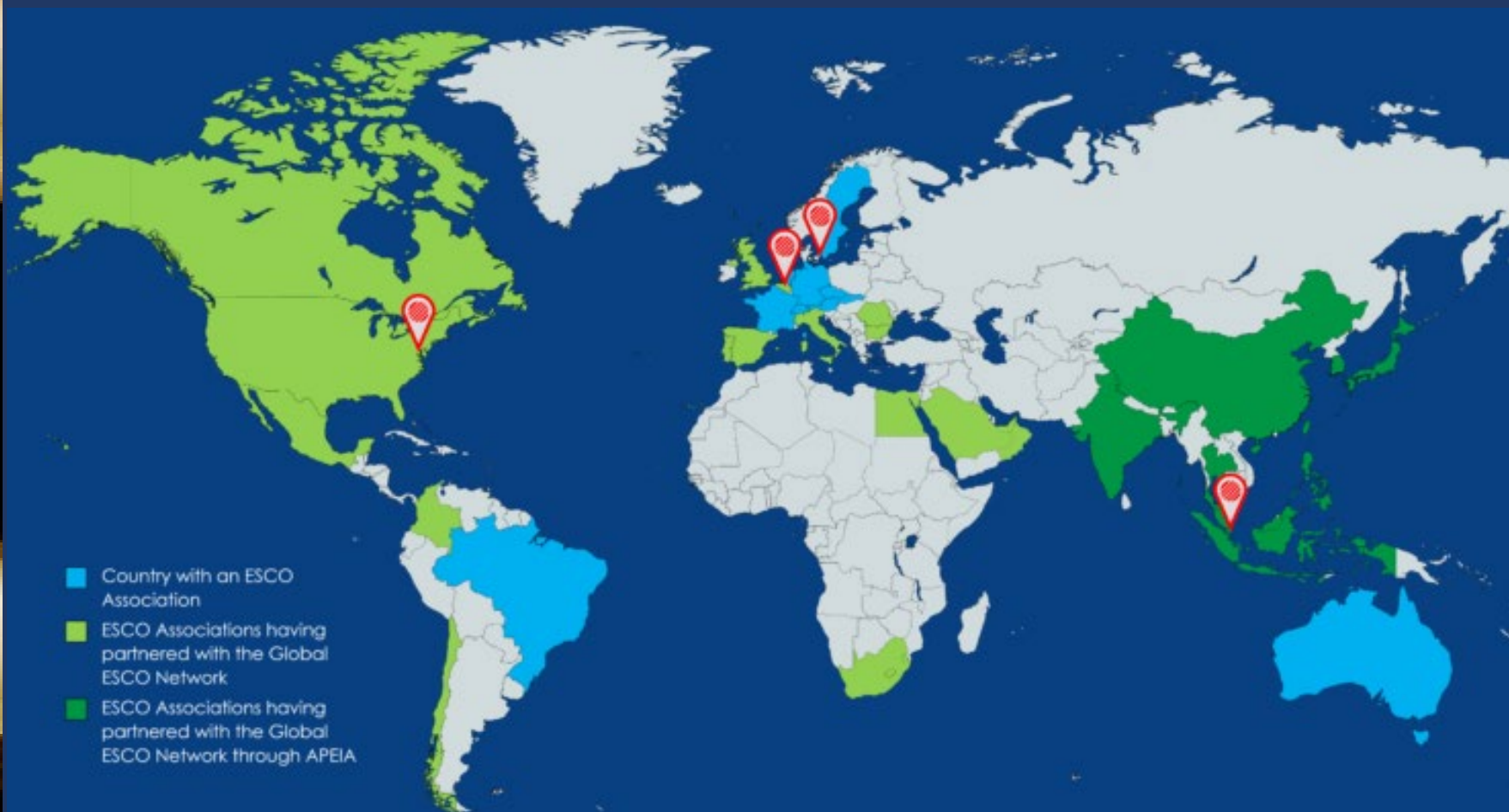
Total historical emissions by destiny of fuel burned - OWID, EcoFys 2019



- Energy Efficiency is very far from delivering on its potential
- Historically, in CDM and JI, it delivered only 11% of the projects and 8% of reductions (albeit 30% of methodologies)
- Currently, in NDCs, energy efficiency is a priority on 81% of submitted NDCs, but ESCOs are only mentioned by 2 countries! - Palestine and UAE)
- 6 countries (incomplete analysis) include ESCOs in enacted climate change related laws and regulations: Andorra, Bangladesh, Bulgaria, Italy, Japan, North Macedonia



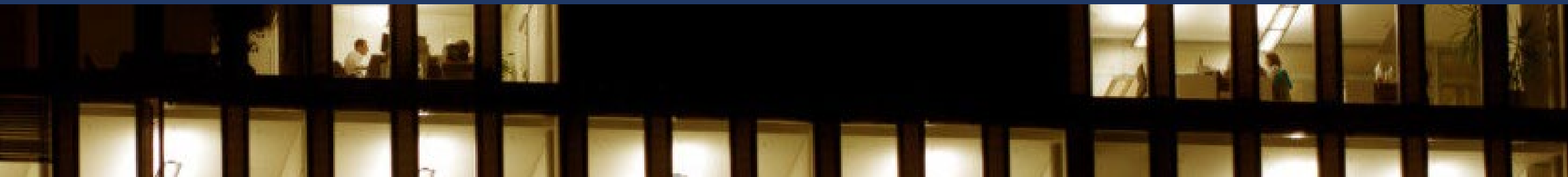
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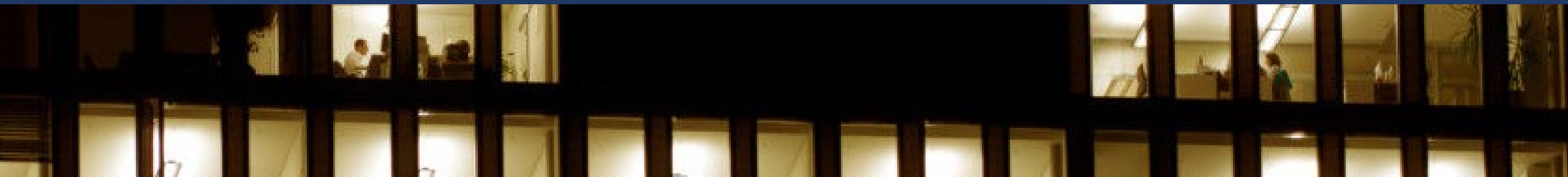
- While most countries have specific policies and objectives particularly on renewable energy, energy efficiency at scale is left mostly to dynamic effects of general technology development.
- There are two possible explanations:
 - Lack of priority



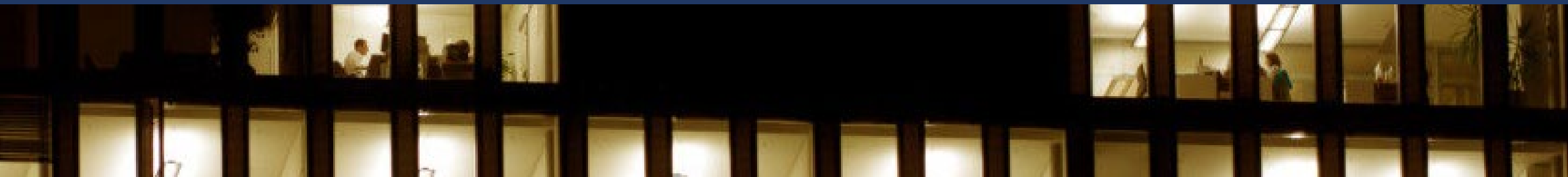
- Lack of understanding of the ESCO business model



- Seemingly, ESCOs are legally and regulatorily overlooked in most countries, even if their aims are congruent with most of the declared objectives of NDCs.
 - They are occasionally disliked (for profit)
 - commonly just neglected, and
 - their business model oftentimes considered an oddity (too good to be true)
 - they target a technologically fragmented market, where single technology solutions thrive
- Point 1, 2 and 4 often penetrate EE policies and regulation
 - 3rd party financed projects are specifically excluded from support programmes
 - ESCOs are generally not mentioned in EE laws
 - Specific programmes are commonly targeting single technologies

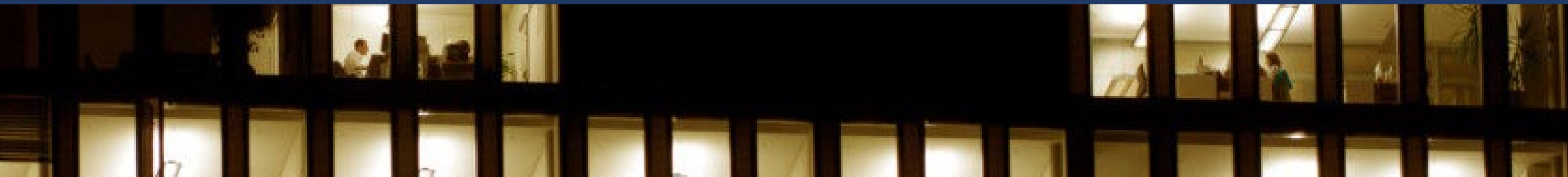


- The Global ESCO Network is now mapping legal and regulatory obstacles facing ESCOs in order to establish a 'legal and regulatory barrier map' for ESCOs
- Our aim is to address global fora as well as national policy makers to inspire specific inclusion of ESCOs as the concrete instrument to realize the energy efficiency potentials dormant in the built environment, in industry and in energy production
- We aim to do this concretely by highlighting the barriers either specifically created or unconsciously perpetuated to hamper the commercial exploitation of these potentials



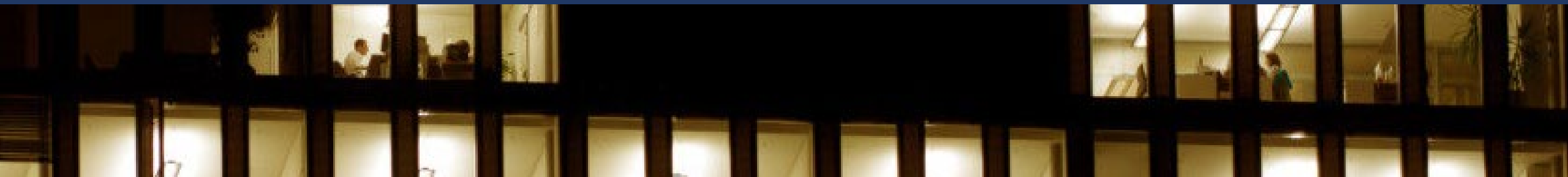
- Preliminary observations:

- While countries regularly run energy efficiency promotion campaigns or provide financial support to energy efficient equipment, ESCOs instead are predominantly looking for
 - Definition of specific energy savings targets for public and private buildings
 - Specific legislation for public procurement, tendering and/or auctions, and
 - Creation of specific legislation for the operation of ESCOs and the formulation of EPC contracts
- It underscores the lack of understanding of the benefits of letting ESCOs exploit the potentials on a commercial basis rather than addressing the same potentials on a grant basis.
- It also underscores the ESCOs' lack of focus on their own contribution in a climate change context



- Preliminary observations:

- The absence of regulation and the traditional way of organizing things in the public sector, especially split incentives, are important obstacles
- A formalized accreditation system can create trust among demand and supply
- Standard contracts are helpful, but oftentimes too complicated for both sides to be helpful
- Super ESCOs seem to be emerging as a tool to address the combination of these obstacles - may they be the instrument that is sufficiently generic, but also sufficiently concrete to be adopted in NDCs?
 - Super ESCOs may be controversial, even in the ESCO business - not a 'one size fits all'
 - They commonly concern only public sector (buildings) energy efficiency
 - They still do not have a track record



- Questions
- Engaging in the NDC development process for the promotion of ESCOs - is it too generic?
- Is the NDC a result of a bottom-up process in countries, or is it a top-down guidance for line ministries?
 - considering that countries are generally falling behind their own NDC targets
- How does the NDC Partnership try to influence processes?
- What are the entry points for ESCOs or ESCO associations in planning processes at national and subnational levels?

