Global consolidated ESCO Policy Recommendations

Pierre Langlois
President
Econoler

Global ESCO Network
co chairman
Global ESCO Network

Søren Lütken
Chair
Global ESCO Network

UNEP CCC
Vision Statement

To be the global driver and inspire government actions for scaling up the contribution of ESCOs to the global response for mitigating the threat of climate change
Mission Statement

• Add and reinforce existing efforts of National and Regional ESCO Associations to promote increased activities by the ESCO Sector at a global scale, by:

• Work for formal recognition of the ESCO sector as a pathway for countries to strengthen and achieve energy efficiency ambitions in their Nationally Determined Contributions (NDCs) under the Paris Agreement on Climate Change.

• Support a better understanding within the finance sector of the value and validity of energy performance contracting, enabling investors to engage in the provision of financial resources that facilitates a decisive scale-up of the reach and depth of ESCO activities.

• Document the benefits of applying ESCO principles in business and policy development through international mapping and benchmarking of framework conditions for successful operation of ESCOs and their achievement of material energy savings.
Mission Statement (continued)

• Actively promote the establishment of ESCO associations and ESCO-related policies in countries where ESCOs are yet to establish a market foothold.

• Widely disseminate knowledge related to best practices in policy and business development related to ESCOs, and raising awareness among policy makers of financially attractive models for energy efficiency improvements.

• Act as a platform for exchange of knowledge and experience among National and Regional ESCO Associations on all aspects of ESCO operation, aiming at distilling central issues to inform any of the above-mentioned activities.

• Convene experts and operating a repository of authoritative literature and other sources of information in order to establish the Global ESCO Network as the go-to resource for any issue pertaining to ESCOs and their promotion as the central concept for implementing energy efficiency investments.
INTERNATIONAL ESCO SYMPOSIUM 2024

PARIS

29 - 30 MAY 2024

for

ESCO ASSOCIATIONS, ESCOS, EPC STAKEHOLDERS

Please confirm your interest in participating to Soren Lutken soren.lutken@un.org
### POLICY RECOMMENDATIONS

<table>
<thead>
<tr>
<th>A fit for purpose definition of ESCOs</th>
<th>An accreditation Registry</th>
<th>A standard based contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing mechanisms to facilitate and promote ESCO operations</td>
<td>A straightforward clarification of accounting, fiscal and taxation issues</td>
<td>Enabling public procurement of ESCO services</td>
</tr>
</tbody>
</table>
1- A FIT FOR PURPOSE DEFINITION OF ESCOS

• ESCO is not a protected term, neither is it well-defined.
• Setting a standard is necessary to underpin the credibility of the sector and educate the market.
• What fundamentally differentiates an ESCO from another service provider is related to the way that its remuneration is link to the sharing of the performance risk.

An ESCO is a legal entity that delivers energy services, energy efficiency improvement measures and/or demand side renewable services in a user’s facility, premises and operations and accepts some degree of financial risk directly linked to the project performance in so doing.

The implemented services and improvement measures are based upon a holistic analysis of the users’ energy and resource demand, against financially and technically viable alternative energy source and/or resource efficient low-carbon technologies, and/or energy management systems.

The remuneration scheme of the ESCO for the services delivered is based (either wholly or in part) on the measured and verified achievement of energy efficiency improvements and of any other agreed performance criteria.
2- AN ACCREDITATION REGISTRY

- EPC can be complex, and an infrequent activity for most buyers who are often executing only one time.
- Accreditation is a valuable instrument which can facilitate the interaction between the ESCOs and buyers.
- A registry of accredited ESCOs provides a basis for contractor selection, with those on the registry having demonstrated the capacity to operate as an ESCO.

National ESCO registry is established considering at least:

- A list of accredited ESCOs with any accreditation classification
- Performance feedback on ESCOs from users
- Information about the process to become accredited
- The Ethical Statement that accredited ESCOs
- ESCO primary contact information
- A dispute resolution window
3- A STANDARD BASED CONTRACT

• A central document that governs the relation between the ESCO and its customer
• ESCO contracts tend to be more complex than in many other business relationships, (long term agreements payment scheme based on performance of the project)
• Its complexity is consistently one of the most prominent barriers in all ESCO markets
• Core of the ESCO model, and it is exclusive to the ESCO business model

Standard based contracts developed and authorized for by a recognized entity, public or private, to:

- Ensure quality, transparency and effectiveness
- Provide a clear and transparent performance risk allocation and associated payment schemes
- Provide a reference based contractual framework between user and ESCOs and responsibilities of all stakeholders
- Agree on an acceptable dispute resolution scheme
4- FINANCING MECHANISMS TO FACILITATE AND PROMOTE ESCO OPERATIONS

• One of the most important barriers to the growth of ESCO operations is the limited access to affordable, adapted or dedicated, sustainable and low-risk financing.

• The availability of financing for ESCO projects is often hampered by commercial banks’ and financial institutions’ limited knowledge and experience with typical ESCO business models.

• There is ample experience with financing mechanisms that overcome the financing barriers.

Explore the feasibility and the benefits of the various financing mechanisms that can facilitate the availability of affordable and sustainable financing.

- Energy efficiency revolving funds (EERF)
- Dedicated credit lines
- Credit or risk guarantees to commercial financing institutions
- Super ESCOs
- Forfaiting for the securitization and purchase of ESCO cash flows
5- A STRAIGHTFORWARD CLARIFICATION OF ACCOUNTING, FISCAL AND TAXATION ISSUES

- Interaction between an ESCO and its client has accounting, fiscal and taxation implications
- Specific wording of the contract determines particularly how the contract is going to be perceived not only by the contract parties, but by third party authorities determining how accounting and fiscal treatments will be applied and how and when taxes will be applied
- How assets transfers are treated (impact on on- or off-balance sheet for the client – ESCO

Accounting, fiscal and tax experts with particular knowledge of EPC and ESCOs and in targeted country are consulted for the clarification and that their advice be incorporated into the recommended standard based contract models in each jurisdiction for the benefits of all stakeholders.
6- ENABLING PUBLIC PROCUREMENT OF ESCO SERVICES

- The governments play a huge role, not only in removing barriers which are impeding ESCO market growth, but also by becoming itself a large buyer of ESCO services in public facilities and infrastructure.
- One of the most prominent barriers for successful market development is that government procurement regulations disallow public sector procurement of ESCO services.

- Public agencies are able to directly **procure ESCO services** within the confines of government procurement regulations.
- **ESCO contract durations are not capped** by rigid multi-year contracting limitations.
- **Energy (and maintenance) savings can be deployed** to pay for ESCO services.
- Innovative procurement modalities such as **Public Private Partnerships** and **Joint Ventures** transactions are enabled to optimize the mobilization of private sector capital and knowledge resources for public sector EE projects.