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REPORT

on status quo of EPC markets in the federal region of Styria

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Conditions of EPC implementation

Potential of EPC implementation in respective city/region

As EPC – and especially the Integrated Energy Contracting (IEC) – is quite well known and established in the region of Styria the low hanging fruits regarding projects and potential clients have already been covered by EPC. Still there is potential

- for EPC plus comprehensive refurbishment (including all it's barriers: financing, lifetimes, guarantees,...),
- for the repeated tendering of already established EPC-projects and
- for IEC.

Existing Energy Efficiency Documents for the city/region

As a legislative document to rely on in the implementation of EPC in the federal regions there is an agreement between the national government and the regional governments, the

15 A-B agreement:

Agreement between state and federal state according Art. 15a B-VG for measures in the building sector for reduction of emission of greenhouse gases.

Art. 13: (6) The activities on energy services in public buildings have to be expanded, especially for giving sufficient incentives for realization of comprehensive refurbishment. Therefore payback periods of maximum 15 years are the decision criterion.

This agreement services as legal foundation for federal states to enable EPC as a tool for the implementation of energy efficiency measures. In Styria the former Landesimmobiliengesellschaft – meanwhile integrated into the regional governmental body – implemented energy services on this legal basis.

Potential target groups and buildings for EPC implementation

Public sector

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The demand in cities and rural communes still exists, although various projects for cities and – very common – pools of rural communes have already been implemented in the past. Main barriers for further development of this market are the high transaction costs of contracting in relation of the typical project sizes in this sector and lack of knowledge: most decision makers judge EPC only as a financing instrument and not for enhanced and improved energy efficiency and as an outsourcing tool.

Still due to the 15A-B-agreement between state and federal state the public institutions in the regions are obliged to expand the actions on energy services in direction of comprehensive refurbishment.

Private sector

In this area buildings built between 1950 and 1980 from 10 apartments onward are considered to be interesting for EPC. Mainly there are 3 sectors which are discussed in detail hereafter:

Rentals

The building owner is obliged by law (Mietrechtsgesetz) to make conservation and improvement measures. EPC is legally possible, the main barrier is that energy savings must be relayed to the tenant and cannot be transferred directly to an ESCO. The solution to refinance the measures is to raise the rents (bilateral agreement with tenant) and to use laybacks (if available). Both solutions bear problems in their implementation because of the involvement of numerous parties.

Housing associations

For housing associations the same obligations (Wohnungsgemeinnützigkeitsgesetzes) count as for rental building owners (see above). The conservation fee can be raised up to 15 years for measures with lifetime more than 10 years.

In case of comprehensive refurbishment the saved costs for heating can be used for maximum 15 years for refinancing through an ESCO. The main barrier for EPC is, that there is no economic need for the housing associations to improve their performance regarding energy consumption, energy efficiency and comprehensive refurbishment.

Owner community

The owner community is obliged (Wohnungseigentumsgesetz) to make conservation and improvement measures. The improvements have to be approved with 50% majority of the shares of the owners. If a contracting project is planned it is advised to inform the owner community at an early point for communicating the advantages of the business model.

SME and industry

Possible barriers for this group for EPC are

- Financial barriers
 - Lack of credit-worthiness or
 - the relation between energy costs and overall costs makes energy costs look as a minor problem
- operational barriers

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- Other priorities of the management
- contracts longer than 5 years are not desired
- Protection of company secrets
- Dividing of energy efficiency measures onto several process units not possible
- Interference with production process is too drastic

Far better than EPC energy supply works in the field of process heat and CHP. In order of this history the path of reaching these customers through a combination of energy supply and energy efficiency can be an alternative.

Attitude of the local/regional authorities to EPC

EPC and IEC are well established with a number of potential clients, so the authorities have already gained experience with the concept. On the other side an application for an ELENA-project has been cancelled by the regional government after facing difficulties with the Off-Balance-Financing-issue and increasing the debts through EPC-projects. This is a main barrier for future EPC-implementation

Barriers in EPC implementation

On the one hand there is the barrier of the Off-Balance-Financing, which already caused a cancellation of an ELENA-application (see above).

On the other hand there are also potential barriers through the change of usage or complete sorting out of objects due to an on-going restructuring process, which could cause contractual changes and essential changes of baselines, therefor the client is reluctant at the time of the report to develop projects.

Last but not least there is still a lack of knowledge about EPC concerning the other advantages except outsourced financing – outsourcing of risks, duties, involvement of experts and guarantees – and how they can be integrated into the contracts to the favour of the client.

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Position of the EPC implementation

Existence of basic instruments for EPC

As the regional government (formerly known as LIG) has already performed a number of EPC-projects by themselves in the early 2000's years and as they have proceeded with the implementation of IEC-contracts around 2006 there are all necessary basic instruments for EPC available. Also within the EESI-project numerous documents (i.e. manuals) have been promoted to the public. Here is a list of documents, which are available and relevant for EPC in the region of Styria:

- EPC-contracts
- IEC-contracts
- Tender documentation
- Baseline templates
- Guideline for a M&V-plan
- Manual for financing of EPC-projects
- Manual for comprehensive refurbishment
- Discussion paper on Integrated Energy Contracting

Existence of EPC (Energy Services Companies)

Survey of existing ESCOs

There is a variety of energy service providers in Austria. Almost every utility is providing energy efficiency services (EES) for their clients, and many financial institutes started with EES activities combined with specialized credit lines. Some construction companies and building centers also offer EES. And finally, there is a well-developed ESCO scene for different contracting types. Energy Performance Contracting is dominated by 7 players, with many other players which only infrequently engage in EPC projects. These 7 players cover about 70-80% of all EPC-contracts.

Scope of ESCO experiences

The above mentioned ESCOs have gained a lot of experience, especially concerning the singularities of the Austrian market. These ESCOs can refer to a number of reference projects to prove their

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experience. As the market size for EPC has been varying in the last years it seems difficult for new market actors to enter the market.

Ability to compete

In general, no big external barriers for EPC can be perceived. There is a relatively good information level among the stake holders. There is a well-developed provider structure with a number of credible and experienced companies. There is also some support from the financial sector, with banks themselves engaging in low level EES to market their special EEI credit products. There are also various public subsidies available for EE measures and consultancy.

On the other hand there is no regulation that would directly stimulate the market for EES.

Moreover in the last few years national subsidies by the Kommunalkredit Public Consulting (KPC) were made available for public customers, if energy efficiency measures are implemented through contracting concepts. Because the handling of subsidies has been changed in these matters allowances of up to 30% of investment costs are possible depending on the type of measures. This has been a major improvement for EPC-providers.

ESCO associations or other institutions

On national level in the last few years there were 8 ESCOs organised in an umbrella association – called DECA – to communicate standardized procedures for EPC to public customers.

At the time of this report the DECA is in a restructuring process, widening the scope of their members from only ESCOs to potential public customer groups, project and market facilitators, planners and energy agencies. This should lead to an enhanced dissemination performance to reach untouched segments of the market.

Financing and banking sector in relation to EPC projects

All the three main types of financing (i.e. customer financing, EES provider financing and third party financing) are used in EPC. Most common is third party financing, as well as all forms of mixing these types. The type of financing is subject to the agreement between the contracting parties and varies from contract to contract.

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Existence of programmes for support of EPC

As mentioned above in the last few years national subsidies by the Kommunalkredit Public Consulting (KPC) were made available for public customers, if energy efficiency measures are implemented through contracting concepts. Because the handling of subsidies has been changed in these matters allowances of up to 30% of investment costs are possible depending on the type of measures. This has been a major improvement for EPC-providers.

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EPC projects

The region of Styria (formerly known as LIG) has performed a number of EPC- and IEC-projects. In the last 7 years 3 pools of projects have been performed, awarding 10 separate projects to 7 different ESCOs.

Realized projects

The Graz Energy Agency supported the Landesimmobiliengesellschaft Steiermark (LIG), the real estate company of the region Styria, by tendering 3 pools of buildings with the need for energy efficiency measures and outsourced heat supply. In this advanced model the two types of energy services – energy performance and energy supply contracting – have been combined to a symbiosis. Meanwhile the Integrated-Energy-Contracting model has been implemented in 10 buildings with different size and usage (conference hotel, schools, home for the elderly, office buildings). The outsourced heat supplies have been switched from fossil to renewable fuels and various energy efficiency measures have been established (controls for lights, solar thermal collectors, optimization of heat distribution, etc.), partly extended to light building refurbishment.

Number of buildings:	10
Energy costs (Baseline)	€ 350.000
Total investment	€ 790.000
Client	Landesimmobiliengesellschaft Steiermark (meanwhile integrated into the regional government body)
Guaranteed savings heat	17% - 31%
Guaranteed savings electricity	5% - 12%
Duration of contract	15 years
CO2 savings	90% (mainly due to switch of energy source)

Prospective projects

Due to the cancellation of the ELENA-application and the restructuring process within the regional government of Styria (re-integration of the Landesimmobiliengesellschaft Steiermark LIG) there are no concrete project developments at the time of the report.

In the framework of EESI2020 there is an agreement between Graz EnergyAgency and relevant project facilitators within the regional government body to aim for a relaunch of EPC project development.

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