



Partner Questionnaire

1. How can EPC affect local level (SEAPs and other energy plans) and National level energy efficiency targets?

In Bulgaria, the EPC market started its development in the late 1990s, but the number of contracts was negligible until 2006. The market expanded sharply in 2007 due to the activities of one large company. In 2007 and 2008 the annual EPC of this company exceeded 5 million EUR annually. After 2008, a decrease of the EPC market size was identified and this can mainly be attributed to the financial crisis .

Although the national EPC market is at an early stage of development, it has huge potential, due to the high energy intensity of the economy (the highest in EU) and the ambitious energy efficiency policies.

Thus EPCs could influence the market of the energy services by creating new investment climate, stimulating the private initiative for financing energy projects, enlarge the opportunity for access of the investors and clients to scientific researches in the field of the EE.

This business model is a very beneficial one especially for the state and public authorities and could be largely used in their Action plans and strategies for increasing the energy efficiency of their building stock, lightening and infrastructure. It is important they to have the necessary knowledge and expertise to correctly implement it.

2. Discuss the most prevalent barriers you have experienced whilst implementing EPC in your region/city, organising your answers under the following headings:

- **Financial Barriers**

Low and unpredictable energy tariffs - The energy tariffs in BG are the lowest in EU and the Government has strong influence on them (energy market is predominantly regulated). The resulting groundlessly low energy tariffs decrease the profitability of on-going EPC and discourage future EE investments.

EPC and ESCO are not eligible for public funding - The existing funds are not open for EPC & ESCOs. In Bulgaria, there are no possibilities to obtain grants related to any EPC phase (preparation, investments, verification, etc.).

There are several public funds and programmes providing different forms of financing, such as grants, soft loans, and guarantees, for energy efficiency improvements in different sectors (industry, buildings, and lighting) and types of ownership (public and private), the main one being the EU Structural and Cohesion Funds. However, none of these funding opportunities is open to ESCOs – they are neither eligible for funding nor the projects can be realized by using EPC. Their main beneficiaries are the public authorities. Thus ESCOs are in a disadvantageous position.



Few banks are ready to finance EPC and the financing conditions are quite unfavourable. One of the reasons for this problem is the high amount of required financing – typically from several hundreds of thousands to several millions euro.

Only The Bulgarian Energy Efficiency and Renewable Fund (EERSF) established through the Energy Efficiency Act in 2004 offers financial products to a large variety of clients (including ESCOs), such as financial guarantees and soft loans for energy efficiency and renewable energy investments. There is one product specifically targeting ESCOs - ESCO portfolio guarantee. The fund is a public-private partnership with independent management and self-sustaining capacity.

While some of the larger companies have financed the EPC projects with own funds, this is not an option for most of the EPC providers and they need to rely on external financing. The options for the external financing are limited, due to the lack of available grants for ESCOs (mentioned above) and restrictive regulations not allowing customer's financing in the public sector.

The lack of affordable low-rate financing is a consequence of the monetary board, introduced in the country in 1997 and the practical impossibility of the Central Bank to take measures for decreasing the rates of the commercial banks. Central Bank is restricted in its usual activities: to keep its own monetary policy, to credit the government and to finance the commercial banks. The result is high commercial rates and higher risk for the loan borrowers.

- **Administrative Barriers**

Low capacity in public sector for EPC tenders - Due to the complexity of EPC and lack of experience, public authorities are in a difficulty to prepare and evaluate tenders. This barrier is interrelated to two other barriers - lack of standardized M&V practices and lack of customer demand.

In the last years, efforts have been put to remove these barriers through the development of regulatory framework, and development of model contracts. Standardization of M&V practices is available only in the building renovation projects.

The high level of EPC transaction costs (tender procedure, determination of baseline, M&V, etc.) compared to simple contracts is an important obstacle in some sectors.

More the tendering procedures are very long and complex. There is no highly professionally strong consultancy expertise in order to assist the EPC's clients.

- **Policy/regulation Barriers**

Lack of support by the governments and uncertainty regards the subsidies and the energy policies. The unpredictable national policy is a major barrier, as it makes companies (e.g. EPC potential clients) more cautious when planning longer term investments. No special policy stimulating the development of the EPC practices.

Limitation of maximum duration of EPC contracts - the Public Procurement Act limits the





maximum duration of EPC contracts in the public sector to 5/10 years (depending on the nature of activities).

The obligations on the EPC contracts are considered as public debts.

- **Knowledge Barriers**

Lack of information about EPC - EPC concept is not well known in the private sector. Lack of data base of ESCOs. Lack of “good practices” examples. Lack of professional experience of the public authorities.

- **Other Barriers**

Potential clients (especially private) distrust ESCOs. Due to the asymmetric knowledge, clients are afraid that the contract and M&V may damage their interests.

The lack of networking and cooperation among ESCOs is another barrier to better representation of this sector in the policy making process (lobbying) and establishment of potential partnerships.

If we rate the negative factors towards EPC’s implementation by their weight, they will be ranged as follows:

- Subsidy/policy uncertainty;
- Low customer demand;
- Lack of trust in the ESCO industry;
- Lack of affordable financing;
- Irrelevant regulations/no government support;
- Complex concept -lack of information;
- Lack of expertise;

In relation to the barriers outlined, please suggest your preferred solution or policy recommendation.

Answer:

- Grant programs for financing EPCs;
- Development of EPC model and standardized tender documentation;
- Liberalization of the energy market;
- Tackling limitations of EPC for the public authorities (duration, scope etc.);
- EPC to be considered as business partnership, not as public debt;
- Wide information campaigns and trainings for potential clients;
- Training of consultants and EPC facilitators;



3. Discuss the most prevalent success factors you have experienced whilst implementing EPC in your region/city, organising your answers under the following headings:

• **Financial success factors –**

Creation of available affordable financing, available public subsidy, and supportive government policy are the main stimuli for EPC market development.

Other important drivers are the high energy prices, customer demand, and increased competition between ESCOs. According to the experience of EERSF, which is arguably the financial institution with the most extensive experience in supporting EPC in Bulgaria, the most crucial factors are as follows:

- Business prospects of the Client / ESCO
- Financial condition & creditworthiness of the Client / ESCO
- Audit of the project

The factors, rated as *very important* are:

- Size and track record of the ESCO
- History and ownership of the Client / ESCO
- Accuracy of the savings verification

The factors marked as *averagely important* are the following:

- Length of the project
- Sector / Branch in which the client operates

Finally, the factors with no importance are:

- Type of equipment to be installed
- The Client / ESCO's tax status

• **Administrative success factors**

To update the existent legislation regarding EPC up to the new Directives and EE laws (the EPC Regulation in force is dated from 2009).

To implement standardized order for the EPC and their reimbursement.

To create possibility to combine different financial instruments.

To draft correct EPCs corresponding to the legislation's requirement.

• **Policy/regulation success factors**

It's necessary to remove the regulated energy price mechanism and create free energy market. The non-market mechanism results in a very hazardous environment for the ESCOs. e.g. in 2013 there were two successive acts for decreasing the price of electricity, not based on economic, but rather populist considerations.

The Government has to create stimuli for enhancing the implementation of EPC, motivating ESCOs and private clients and developing the energy market. It has to carry out a sustainable, consistent energy policy and improve the energy legislation in order to facilitate the application of innovative business models for the energy services.



- **Knowledge success factors**

Although the EPC market in the country started in late 1990's, until 2014 the EPC publicity was scarce and practically concerned only the public sector. Since 2014, due to numerous training courses and information campaigns (carried out mostly within projects), the awareness is quickly increasing in the public sector, but the private clients are still not covered by the communication activities.

The present high energy intensity of the national economy (the highest in EU) determines the huge potential of this market, which can be realised only after overcoming the lack of knowledge and consequently lack of trust in the ESCO industry.

The necessary measures are:

- provision of information and education of ESCOs and clients;
- networking of ESCOs;
- lobbying;
- distribution of materials (awareness raising, success stories);
- training of clients and ESCOs; online database of ESCOs;
- educating consultants and facilitators of the EPC procedures.

- **Other success factors**

The main factors/drivers for the success of the EPC market in the country are shown below:

- Affordable financing;
- Public subsidy;
- Government policy;
- Competition among ESCOs;
- Increased trust and customer demand;
- Increased energy prices.

4. In relation to the success factors outlined, please elaborate on why these factors were of particular importance.

Answer:

The conclusions were based on the analysis of the few "good examples" of successful EPC projects in the country and the interviews of ESCOs, public authorities, officers of relevant state organisation, trained facilitators.