

Partner Questionnaire

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

The first draft version of the Third National Energy Efficiency Action Plan sets annual target of 48PJ savings in the final consumption. Within the CombinES project it has been estimated that in the business as usual scenario (without barrier removal) 0.016 PJ could be saved in 2020 by the EPCs invested until then (Comprehensive renovation of buildings – Combining EPC with subsidies, Szomolanyiova et al. 2014). This would make up only 0.03% of the national targets. The existing barriers to the EPC implementation should be removed as soon as possible to allow for much higher contribution of the EPCs. Such contribution was estimated in the CombinES project to 0.2 PJ in 2020 and thus 0.4% of the national targets.

The new axis No. 19 of the Operational programme Environment 2014-2020 will subsidise renovation of building envelope while the renovation of the technology system is implemented with the intervention of an energy service company (ESCO) through the Energy Performance Contracting model (EPC). This is expecting to increase demand for EPC and thus also its potential to contribute to achieving to the national energy efficiency targets.

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**

If the public organisation is indebted, it may be **reluctant to increase their level of indebtedness** by implementing EPC project. Otherwise there is usually no problem in financing the EPC projects for most ESCOs in the Czech Republic as they sell the claims from EPCs to banks.

- **Administrative Barriers**

There are a lot of administrative barriers to EPC in the public sector (property and buildings managed by the state, regions and municipalities). The frequent barrier to be tackled is the barrier of **split incentives**. It happens when the managers of the publicly owned facilities have limited access to the savings on the energy bills as a result of EPC. The savings are often taken by the facility owner - the local government or the state. In such case the facility manager has low motivation to implement an EPC project. Some public organisations are able to retain the benefits of cost savings; however other ones are not allowed to do so. It is up to the relevant founder or budget provider to decide whether (a part of) the savings will be left to the organisation during the term of the contract. Thus this is an issue to be negotiated before the tender procedure.

In the Czech Republic, hospitals typically keep the full savings to themselves due to the higher autonomy as they are financed by the payments from the insurance companies. On the other hand, schools do not have direct access to those savings, as they are financed from the municipal budget where often the cost savings are retained. A site manager may solve this problem by appropriate pre-project negotiation during which the municipality as a school owner agrees to share the cost savings with the school.

- **Policy/regulation Barriers**

A significant barrier is the actual inability to implement EPC projects in a large part of public facilities – the ones owned by “**governmental organisation units**”. (Until now, the EPC projects have been implemented mostly in the other type of the public organisation only, the public “allowance organisations”. The “governmental organisation units” are not allowed to receive supplier credits for financing of programmes, which provides a major barrier to the EPC implementation on their facilities. In contrast to the allowance organisations, governmental organisation units pursuant to Section 49 of Act no. 218/2000 “are not allowed to receive or provide loans”. Therefore, to date it has not been possible to finance EPC projects within governmental organisation units by way of a supplier credit. Therefore, currently, the only way of financing EPC projects has been exclusively through special-purpose “capital investments” from the governmental budget (as stipulated in the current wording of the Act on budgetary rules), which is not very feasible from the practical point of view.

- **Knowledge Barriers**

The **complexity of the whole EPC process in combination with lack of know-how and information** is an important structural barrier. The decision makers in the public sector often fear the complexity of the evaluation process or even interpretations claiming such process is conflicting with the requirements by the Public Procurement Act. In contrast to the regular public tenders where the lowest price is the decision factor, in the EPC tender different criteria need to be applied, with a key weight given to the volume of energy and cost savings.

- **Other Barriers**

The trust in the ESCO industry in general is rather low. It is also one of the reasons why the ESCO Association was founded and has been working on standardization of the whole industry since then.

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

Answer:

EPC should be stated as a clear governmental priority in the next version of the Energy policy. EPC support should be also clearly declared in the Third National Energy Efficiency Action Plan of the Czech Republic – currently under preparation (January 2016).

The Energy Efficiency Directive should be implemented more quickly in the Czech Republic. Since 1st of July 2015, the new amendment of the Energy efficiency law No. 406/2000 is in force introducing the definition of the energy services, content of the EPC contract and the list of the energy service providers which will be maintained online by the Ministry of Industry.

One of the main tasks related to EPC in the Czech Republic will be to implement art. 5 (“Exemplary role of public bodies’ buildings”), art. 18 (Energy Services) and art. 19 (“Other measures to promote energy efficiency”) of the Directive. Specifically, administrative and accounting barriers for state owned buildings should be removed; consensus on the method to do this should be sought for with the Ministry of Finance.

The certification system for energy services providers should be introduced in the Czech Republic to increase the trust in the EPC services in the public sector. The Ministry of Industry and Trade already has a basic design of the certification system for the energy services companies, which can be used for its introduction. It requires several legislative changes, in which this system will also be institutionalised. In addition, it will be necessary to determine the certification body that

will grant and revoke certification under certain conditions and the administrator of the certification system that will ensure the formal and organisational aspects of the certification itself as well as the organisation of training for energy services companies.

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

EPC market in the Czech Republic ranks among the developed ones in Europe. Until 2015, about 200 EPC projects have been implemented. This is mainly thanks to the continuous work of individual ESCOs and EPC facilitators who keep explaining and marketing the advantages of EPC and have also developed detailed EPC procedures and standard documents. The bottom-up hard work and willingness to explore new paths would be the main success factor in the Czech Republic.

- **Financial success factors**

In the Czech Republic the financial crises and the resulted limited investment budget motivated the organisations to use EPC to go for the EPC project.

Most ESCOs in the Czech Republic find the obtaining workable finance for a good/viable project as easy and believe they are able to obtain commercially viable terms and rates of interest from funders quite easily when setting up EPCs.

The ESCOs in the Czech Republic use very successfully sale of claims to finance the EPC projects. The preparatory phase of the project as well as installation of the measures is financed by the ESCOs. Once the technologies and energy efficiency measures are handed over to the customer, the receivable is assigned to a third party – the bank. There are at least three banks in the Czech Republic who buy the sale of claims from the EPC projects.

This allows ESCOs to enter other large EPC projects and keep their level of indebtedness on a low (acceptable) level. At the same time, it brings no changes to the EPC contract and guarantee of savings by the ESCO remain unchanged.

- **Administrative success factors**

- **Policy/regulation success factors**

There have been a few supporting governmental initiatives, such as subsidy to initial EPC feasibility studies or support to standardisation of Energy Performance Contract.

An important part of the implementation of the Directive on Energy Efficiency in the Czech Republic was the new Act No. 406/2000 Coll., on energy management, which came into effect on 1 July 2015. Part of the new wording of the Act is the legislation on energy services, the first in the history of Czech law, which includes a definition of energy services; requirements for energy services contracts; and a list of energy services providers.

According to Section 10f of the Energy Management Act, the Ministry of Industry and Trade will maintain a list of energy services providers and will lay down basic conditions for registration and deletion from this list.

- **Knowledge success factors**

In 2010, the energy service companies in the Czech Republic founded their “Association of energy services providers” (Asociace poskytovatelů energetických služeb, APES). APES has been

very active since its foundation in supporting expansion of the Czech EPC market by its educational activities and attempts to remove the existing barriers. It organises annual conference and seminars. It initiated the work on standardization of EPC model documents and also of promotion of the European Code of Conduct for EPC. Since 2011 there is an annual competition for the best EPC project and winners are awarded in annual EPC conferences with high publicity, bringing further attention to EPC.

International projects keep providing momentum to the EPC market development in the Czech Republic and helping EPC market actors (ESCOs and EPC facilitators) to raise awareness on EPC. The EESI2020 and Transparence project have been a significant help by organising all together about 10 EPC trainings and other educational and discussion events in the last three years.

- **Other success factors**

Communicating to the client that using the European Code of Conduct for EPC would help ensure that the EPC provider was supplying them with a high-quality EPC.

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

Answer:

The main driver was the motivation of the building owners to achieve **energy efficient operation of the energy system** in their buildings. Building owners were motivated to save the costs of operation of their buildings. Moreover, the EPC project allows the owners to use external financial source to cover the investment costs and saving the financial sources for other investment activities