ESTA VIEWPOINT

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Unlocking energy efficiency

You either love energy performance contracts or hate them. But they are growing in popularity and hav yet to meet their full potential, believes *Nick Keegan*

The Government's Clean Growth Strategy highlights the importance of 'building confidence' in energy services to 'unlocking business energy efficiency' and driving vital third-party finance into projects. But what are the barriers and how, as a sector can we foster the right approach and solutions?

Energy efficiency has been around as long as energy itself, yet the sector's general malaise to implement anything other than lighting retrofits with short payback periods[1] continues to create the need for a trusted Energy Performance Contracting sector, able to draw together project teams and assist in up-selling more holistic solutions to an organisation's board through enthusiastic energy managers.

Over the years Energy Performance Contracting has seen continued interest from investors, service providers and policymakers, though it has developed somewhat of a 'Marmite' reputation: Those that love it highlight the model's attractiveness to organisations looking to focus on their core business, as it outsources the identification, implementation, financing and operation of energy saving measures, while offering the opportunity to incentivise performance and transfer risk through guarantees and gain shares. On the other hand, those that hate EPC say it is too complicated and too expensive as a result of considerable project development and financing costs.

Complicated and expensive are perhaps terms considered by the love side that equate to being comprehensive in scope. Undeniably, it allows clients to bring in deeper energy saving measures that do not generate a sufficiently attractive return on investment on their own. This, in turn, builds deal sizes large enough to interest third-party financiers, thereby offering to reduce the scenarios of crucial energy saving opportunities being quashed by a lack of capital availability.

Wherever you stand on the debate however, Energy Performance Contracting has enjoyed strong growth in the UK public sector recently. It is, though, far from meeting its full potential or establishing a

foothold in the industrial and commercial sector, held back by a lack of trust, complexity and high transaction costs due to considerable market diversity.

Third-party financing options

It also appears that while a wide range of third-party financing options are in play, most projects use client capital or debt and there are indications that the nirvana of widespread 'pay-as-you-save' EPC is being hampered by poor affordability of third-party finance and confusion about whether investments can be taken off the client's balance sheet. This is further complicated by silos where financiers and investors are having trouble identifying projects for investment, but at the same time technology providers are having difficulty finding finance for projects.

So what is the answer? More joined-up policy and regulation could be the key to influencing and encouraging more to be done. Fundamentally perhaps, education, collaboration and an assurance programme for investment is required to break down initial barriers to greater success.

But it's not just the UK working on this issue. Funded by the EU's Horizon 2020 research and innovation programme, the QualitEE[2] project aims to investigate and develop the opportunity for specific quality assurance of energy efficiency services to break down the barriers. As

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well as increasing trust, it is thought a quality assurance scheme could drive standardisation, reducing complexity ar transaction costs, while also improving finance affordability and perhaps allevia some of the concerns cited by the 'hate' of the debate! The project has published draft set of quality criteria, against whic energy efficiency services such as energ performance contracts can be evaluated next challenge is to implement these w functioning national assurance scheme

Bringing stakeholders together to discuss and develop such a framework is an important next step to consolidat what has been a fragmented approach ESTA's Energy Performance Contracti group (EPCg) we have been doing just t over the past four years. We have held annual seminars and quarterly group forums, and we now have members fr all stakeholder backgrounds including finance, local Government, global solu providers, SME technology providers, management and professional service consultants taking part.

The QualitEE project is a key initiat for the group and we are currently ru a series of market consultation events gather feedback on a proposed qualit assurance scheme for energy perform contracting in the UK. We are also loo at how this potential scheme could w conjunction with the Investor Confid Project's (ICP) established Investor Re Energy Efficiency TM certification. IC was developed in response to the san barriers as mentioned above but focu certifying the quality of a particular p rather than an EPC contractor's servi is designed to meet the needs of the energy efficiency market regardless contract structure has been used so t schemes are considered complimen aim in looking at a possible combina ICP and QualitEE is to maximise the of service delivery and project outco whilst keeping transaction costs anc certification fees to an absolute min

References

1) *Energy Efficiency Trends. Vol. 22*
2) *QualitEE - https://qualitee.eu/*