



Working Group I:

Development of the ESCO market

# ESCO PROGRAMMES WITH SUBSIDIES

Best practices from Central and Eastern Europe: Czech Republic, Poland, Latvia. Focus on multi-family residential buildings.

## Summary

*The use of integrated and innovative business models for accelerated implementation of energy-saving measures within national and regional programs is an undeveloped opportunity in Bulgaria, unlike several countries with which we have compared ourselves over the years. To highlight successful practices in the EU that are easy to replicate to achieve the set national and regional goals, existing programs in the Czech Republic, Latvia, and Poland are examined. The common aspect in all three cases is that they manage to combine an EU subsidy with the provision of an ESCO service to the final beneficiaries (development of a candidate project, energy audit, design, implementation, economy, insurance, operation, and maintenance "one-stop-shop"). There are several main specifics that stand out when structuring the processes in the reviewed programs: (i) the admission to participation of energy efficiency (EE) service providers that provide combined one-stop-shop services, (ii) the existence of prior subsidy approval which provides assurance during the initial stage of implementation of EE projects in the main participants – banks, beneficiaries, EE service providers, managing EU funds, national and regional units, (iii) the existence of a package of standardized contracts, including tripartite ones, to be used by program participants to ensure clear and transparent synchronization throughout the process, (iv) amounts of subsidies that do not distort participants' market behavior, and (v) additional incentives with higher ambition to save and verify energy savings after one year.*



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## I. Czech Republic

### 1. Participants

The current program includes the following participants:

- Ministry of the Environment
- National Fund for Environmental Protection
- Operational Programme "Environmental Protection"
- ESCOs
- Banks

Although beneficiaries of the program are public entities (hospitals, etc.), the provisions used can be borrowed for the conditions in Bulgaria.

### 2. Key Points in the implementation of the Program

The program includes the following steps:

Step 1: Preliminary analysis

Step 2: Submit an applicant project for a subsidy

- Energy audit
- Readiness of the project at conceptual level (conceptual phase)
- Declaration of use of ESCO contract by beneficiary

Step 3: Conduct a tender procedure

- Use of the "Competitive Dialogue" form
- The amount of the subsidy is fixed

Step 4: Improvements in project indicators after evaluation by the ESCO trap

- Annex with improved parameters
- Improved Energy Audit

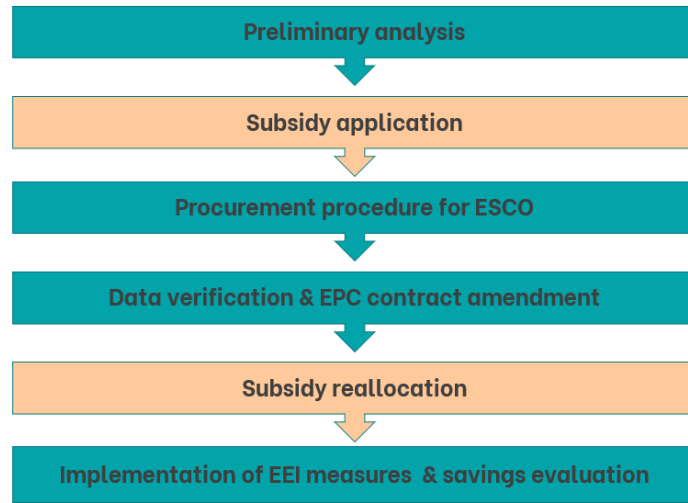
Step 5: Optimization of the budget within the subsidy

- Final Candidate Project
- Tripartite contract between ESCO, client, bank for purchase of receivables
- Annex with improved parameters
- Improved Energy Audit
- Summary table of improvements (differences between preliminary application and final)

Step 6: Implementation of the project

Figure 1: Sequence of processes in the Czech Republic

**EPC PROCESS WITH SUBSIDIES**

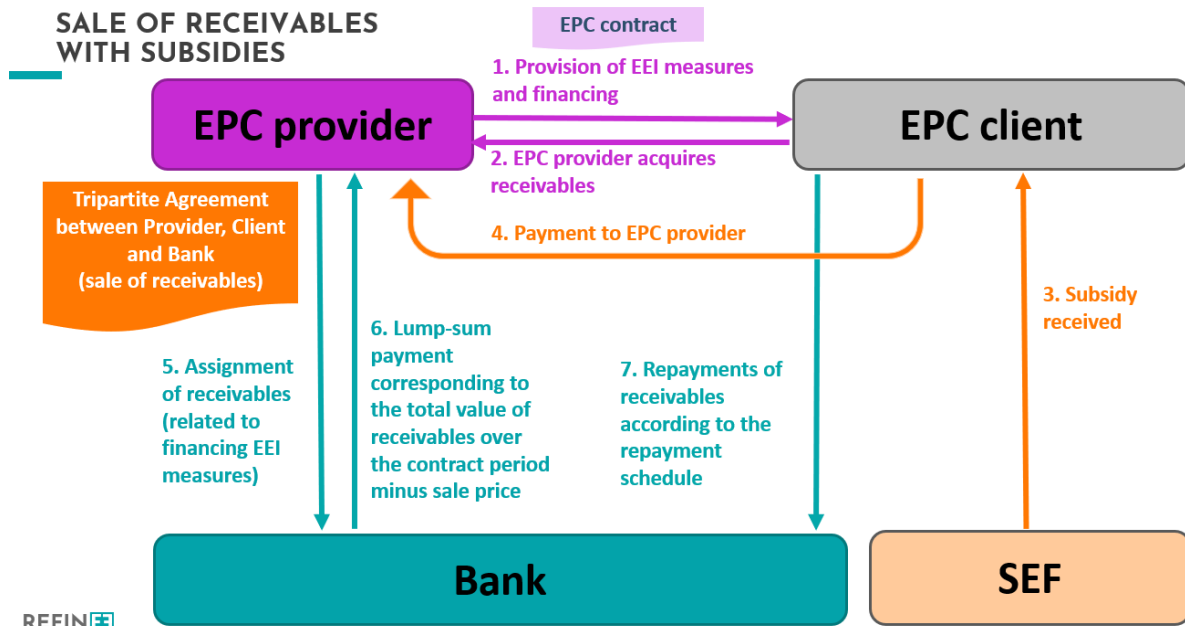


REFINE

Source: REFINE

The interrelations between the individual participants can be traced in the lower figure. One of the main tasks achieved in such a structured scheme is that it satisfies the grantor's (SEF) requirement that the expenditure has been incurred by the beneficiary before the specified part is recovered. This is what is achieved through the conclusion of the tripartite treaty.

Figure 2: General scheme of the programme in the Czech Republic



REFINE

Source: REFINE



### 3. Documents Available

The following documents are available for use/adaptation:

- Declaration of use of ESCO contract by beneficiary
- Summary table of improvements (differences between preliminary application and final)
- Tripartite contract between ESCO, client, bank for purchase of receivables

### 4. Recommendations for Bulgaria

The following good practices from the Czech Republic could be borrowed for the needs of programming subsidies with ESCOs in Bulgaria:

- Preliminary framework approval of a candidate project and subsequent one to allow reshuffling / optimization / improvements of the investment.
  - In this way, the ESCO company has the opportunity to offer better solutions than the ones at stake;
- Payments to the ESCO company to be exported at an earlier stage in two parts – 1st payment after realization of 1/2 of the investment; 2nd payment after acceptance of the object.
  - In this way, the inflation risk for the ESCO and the beneficiary is mitigated.
- Use of the 'Competitive dialogue' form of tendering procedure
  - In this way, ESCOs can compete at the level of innovation and solutions, rather than on Bills of Quantities (KSS). As a result, the efficiency of investments increases.

## II. Latvia

The reviewed programme (the 'Programme') is part of the Latvian Recovery and Resilience Plan ('HEU') and targets renovation of multi-family residential buildings. The case study when using an ESCO model is discussed.

### 1. Participants

The main actors in an ESCO model are:

- The Latvian fund "Altum"
- Authorized persons (representatives of the owners of apartments)
- The owners of apartments ("Condominium" / "EtS")
- ESCOs
- Banks

### 2. Key Points in the Implementation of the Program

The amount of the subsidy is not more than 49%. The option for the implementation of energy-saving measures is regulated in the form of engineering (design and implementation). The possibility of assisting, within 49% of the costs, the preparation of the technical documentation of the project is also open.

Key is the mention in the program that the recipients of grants do not apply the provisions of the Public Procurement Act, except in cases where they are public entities.

The main steps in the implementation of the program are depicted in the graph below and are as follows:

**Step 1:** ETS authorizes their representative ("Authorized Person" / "UL") to represent them before the Program and assist during its implementation. There is no special requirement for a procedure to be followed when choosing a Str.

**Step 2:** ETS has the option to attract an ESCO company in the implementation of the Program and the renovation of the building to be done in the form of an engineering project that includes both design and implementation (see item 70 in Decree 460 of Section 3, Available documents). The selection of an ESCO company must follow good market practices – consideration of more than one offer, absence of conflicts of interest and the like (see point 59 in Order 460 of Section 3, Available documents).

**Step 3:** The ESCO company should select its suppliers and subcontractors following good market practices - consideration of more than one offer, absence of conflict of interest, prevention of fraud and corruption (see item 70 in Decree 460 of Section 3, Available documents).

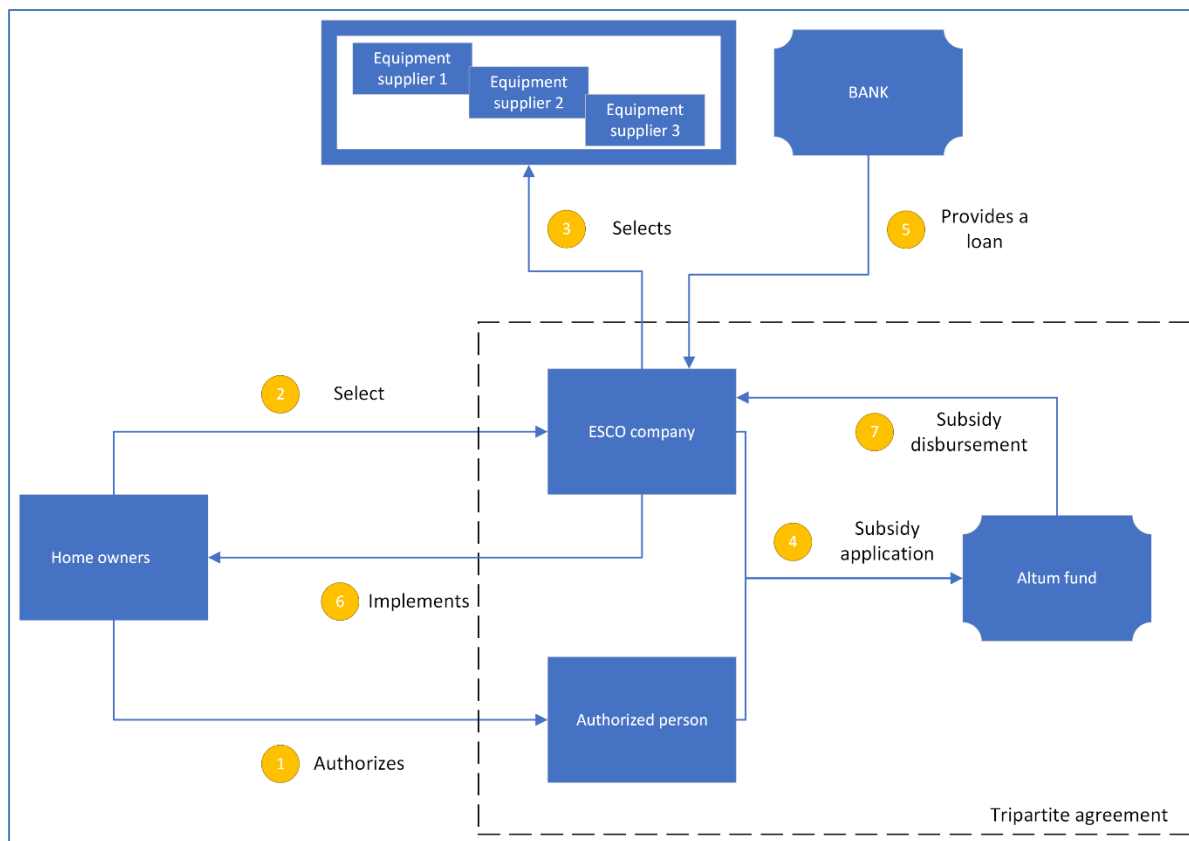
**Step 4:** Altum, UL and ESCO sign a tripartite contract upon approval of the Program application.

**Step 5:** The ESCO company provides the necessary funding to implement the renovation.

**Step 6:** The ESCO company implements the envisaged energy saving measures.

**Step 7:** After implementation of the renovation, the ESCO company provides all reporting documents to Altum and receives the envisaged subsidy.

Figure 3: General scheme of the programme in Latvia



Source: FinERGo-Dom / Energy Efficiency Alliance



### 3. Documents Available

The following documents are available for use/adaptation:

- Decree of the Council of Ministers No.460 regulating the implementation of the program<sup>1</sup>

### 4. Recommendations for Bulgaria

What is described in this section is another edition of the program for renovation of multifamily residential buildings in Latvia, but in this case under the auspices of the Latvian University of Architecture. The structure and organization of the Latvian program, in its entirety, is a good practice that has already served as the basis for a similar one in Poland (see Section III). Experience in Bulgaria is in the process of being transferred under the FinEERGo-Dom<sup>2</sup> project, especially in the part of good practices that it is advisable to follow by ESCOs. Among the main mechanisms of the Program, which can be replicated in our country, are:

- Easy and fast application procedures, selection of UL, ESCO, suppliers and subcontractors (in cases where beneficiaries are not public entities).
- Ability to use engineering, which leads to shortening the deadlines for implementation of renovation projects
- Additional source of finance through ESCO
- Existence of a tripartite contract, which guarantees synchronization between beneficiary, contractor and grantor.
- Subsidy for preparation of application documents up to 49%

## III. Poland

Multifamily residential buildings are also targeted by the program "Renovation through ESCO Plus" ("Program"). It uses as a basis for its creation and structuring the Latvian renovation program (see section II) in its part that allows partnership with an ESCO company. The Polish program was developed within the FinEERGo-Dom project, which also has representatives from Bulgaria in its consortium, and to date it is in progress on implementation<sup>3</sup>.

### 1. Participants

Main participants are depicted in the lower figure. The interactions between them are as follows:

- National Fund for Environmental and Water Protection ("NFOŚiGW")  
Provides a subsidy of between 10% and 30% depending on the degree of ambition for energy saving of the candidate project.
- National Agency for Energy Efficiency ("KAPE")  
Assists ETS and ESCOs in the process of implementing the program.
- National Development Fund ("PFR")

<sup>1</sup> <https://likumi.lv/ta/id/334084-eiropas-savienibas-atveselosanas-un-noturibas-mehanisma-plana-1-2-reformu-un-investiciju-virziena-energoefektivitates-uzlabosana#p65.4&pd=1>

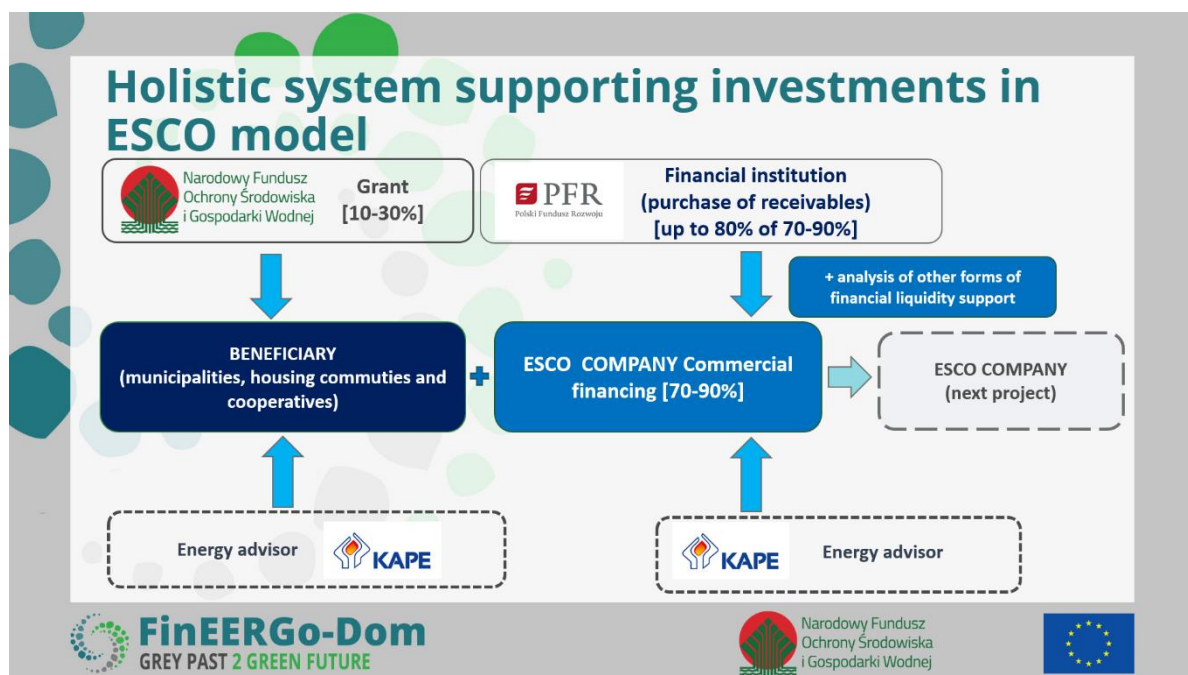
<sup>2</sup> <https://fineergodom.eu/>

<sup>3</sup> <https://www.gov.pl/web/funduszmodernizacyjny/renowacja-z-gwarancja-oszczednosci-epc-energy-performance-contract-plus>

Buys the incurred receivables of the ESCO company up to 80%. In this way, an ESCO company recovers part of the investment in multi-family residential buildings and can invest it in a subsequent renovation project.

- ESCO company
- Owners of apartments / condominium ownership ("EtS")

Figure 4: General scheme of the programme in Poland



Source: FinEERGo-Dom

## 2. Key Points in the Implementation of the Program

The following figure depicts the application and implementation processes of the Program:

### Step 1: Pre-approval

General eligibility criteria for the applicant are checked. There is a possibility to use a basic calculator to prepare preliminary calculations. If necessary, NFOŚiGW issues letters of commitment (or other necessary documents) for prior approval to finance the project.

### Step 2: Submit a candidate project

After selecting an ESCO company (on a general basis, if the applicant does not fall within the scope of the Public Procurement Act) and preparation of technical documentation together with it (Energy Audit, etc.), the applicant submits a candidate project for granting a subsidy.

### Step 3: Implementation

The ESCO company implements the envisaged energy saving measures.

### Step 4: Absorption of the subsidy

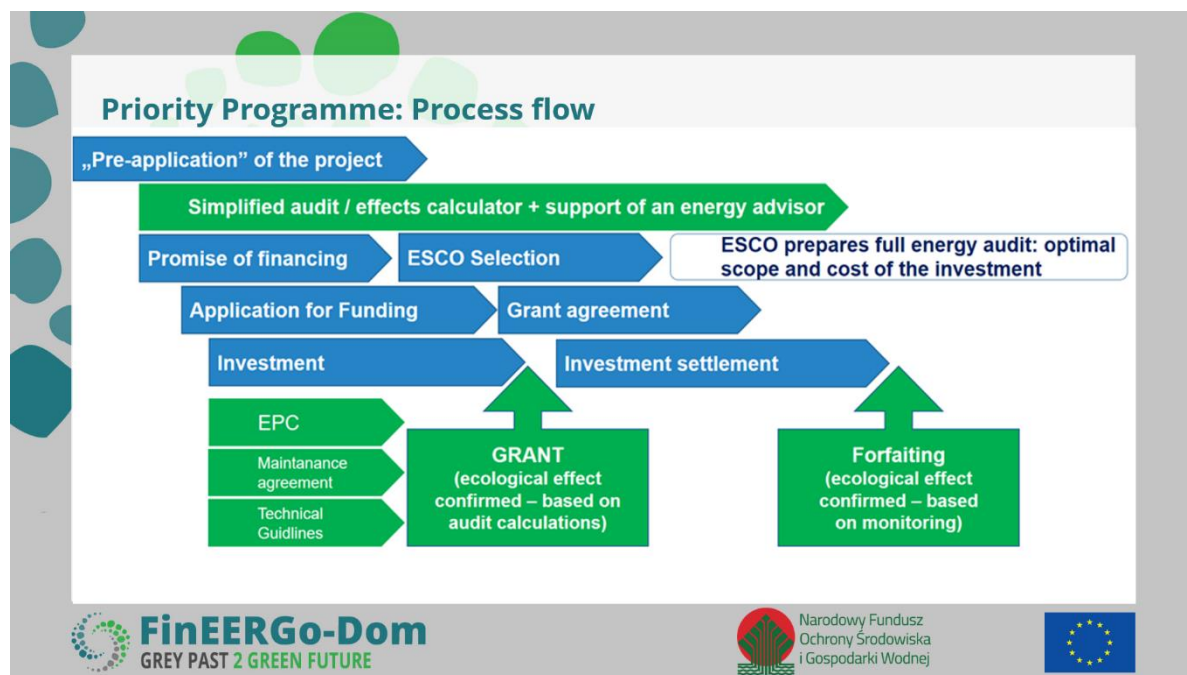


After verification, NFOŚiGW grants a subsidy of up to 30%. Grounds for approval of the subsidy is the existence of a concluded ESCO contract according to the template of the Program.

#### Step 5: Cession

One year after the completion of the project, with successfully verified energy savings, the ESCO company can sell up to 80% of its receivables (monthly installments paid ETC within the realized energy savings) to PFR.

Figure 5: Sequence of processes in Poland



Source: FinEERGo-Dom

### 3. Documents Available

As the programme is in progress, all documents are available:

- General guidelines
- Technical Guidelines
- Guidelines for NFOŚiGW co-financing
- List of annexes
- List of required documents according to the type of beneficiary
- Notice for submission of project proposals
- Application form for preliminary approval
  - Guidelines for completing an application form for pre-approval
  - Set of declarations from the beneficiary
  - Additional templates and shapes
  - Calculator
- Application form for approval
  - Guidelines for completing an application form for approval
  - Set of declarations from the beneficiary



- Additional templates and shapes
- Framework contracts and annexes

#### 4. Recommendations for Bulgaria

The Polish program "Renovation with ESCO Plus" can be replicated directly in Bulgaria. Several essential elements deserve to be singled out:

- The program is designed exclusively for ESCOs. In this way, it is possible to develop the provision of complex energy services "one-stop-shop" (integrated services – engineering, monitoring, guarantee/insurance of the achieved savings, operation and maintenance, etc.) As a result, the time until energy savings are achieved. Transfers of processes between individual companies are avoided.
- The contracts for the implementation of energy-saving measures also provide for the service management and maintenance. In this way, the newly introduced technologies and assets are stored, respectively. A comprehensive sustainable approach to energy consumption management is introduced.
- ESCOs have the opportunity to maintain high liquidity and increase their investments in energy-saving measures for new customers, as PFR buys their receivables from completed projects no earlier than one year.
- The program provides additional benefits to participants after a real verification of the savings achieved (cession after one year to PFR).
- The amount of the subsidy is within limits that do not pass on the cost entirely to the European taxpayer, but also require participation/funding from the beneficiaries.



## Briefly about BeSmart

### *The Bulgarian Forum for Financing Energy Efficiency Projects:*

The transition to a low-carbon economy requires higher energy efficiency and better energy management, the introduction of new specialised services and the development of financial mechanisms. This exceptional challenge is particularly relevant in the building sector, where the currently used 100% grant mechanism for the renovation of multi-family residential buildings needs to be reformed into a more sustainable financing scheme that is socially acceptable, ensures the participation of vulnerable consumers and at the same time sets higher criteria for energy efficiency and environmental benefits.

### *What are we aiming for?*

To help develop and implement policies and financial mechanisms to support investment in energy efficiency and to support the implementation of European sustainable energy development initiatives at national and local level.

### *How will we achieve it?*

- Involving all stakeholders in an open dialogue
- Dissemination of good practices, initiatives and tools
- By building an online communication platform for sharing knowledge and experience
- With nine national roundtables with extensive media coverage
- With specific recommendations for the development of financial instruments to support energy efficiency

### *Target groups:*

- Banks, other financing institutions and ESCOs
- Representatives of the central government, mainly from the ministries of finance, economy, energy, regional development and public works and the executive agencies belonging to them.
- Local and regional authorities
- National associations - construction, SMEs and industry associations, consumer associations and various service providers
- Think tanks and academia
- The general public and citizens
- Media.



*Main benefits:*

- Involving all stakeholders in an open dialogue
- Dissemination of good practices, initiatives and tools
- By building an online communication platform for sharing knowledge and experience
- With nine national roundtables with extensive media coverage
- With specific recommendations for the development of financial instruments to support energy efficiency



This project has been funded with support from Horizon 2020 of the European Union by grant agreement No 101033787.