Work Group II:

Financial mechanisms and instruments promoting the market development of energy efficiency services (EES) and renewable energy sources (RES). Integration with the National Decarbonization Fund (NDF) and other enabling financial platforms

Policy Recommendation (1)

Creation of a dedicated segment under the NDF with the capacity to support ESCO-type innovative models for implementation of EE/RES projects

Summary

The ability to support innovative business models in EE and RES requires specialized expertise and knowledge to be present in financial institutions based on which they can effectively develop and offer adequate financial services. In Bulgaria, there is accumulated experience in providing financial services to integrated EE projects. That can be easily upgraded and consolidated as an ESCO segment under the NDF. Considering the complexity of the ESCO projects, the NDF can also play the role of an orchestrator and a standardizing agent, according to which other market participants - providers of energy efficiency services, facilitators, consultants, and public customers - should be aligned. In this way, the emergence of a single and standardized market for EE/RES projects, key to attracting private capital for the transformation needs of the Bulgarian economy, would be greatly alleviated.

Thanks mainly to the Bulgarian Energy Efficiency Fund (BEEF), there is a long history of financial support for the ESCO model in Bulgaria. On this strong foundation, the NDF can build on and avoid same mistakes. A mandatory prerequisite for the ESCO mechanism to develop in a sustainable way, as well as to benefit from potential new instruments provided from the NDF, is that the coming grant schemes and subsidies are competently programmed. In other words, any possibilities for competition with market mechanisms in the face of ESCO and/or financial instruments should be prevented. Just the opposite, managing authorities should program and require grants to be blended with ESCOs (or other financial instruments). Unfortunately, the experience of recent years has been exactly the opposite. As a result, market-based schemes such as ESCO has been effectively eliminated from the market. In addition, beneficiaries have been encouraged to apply or wait for opening of new programs with 100% subsidy.

At a minimum, the NDF can further enhance the ESCO support that BEEF already provides by:

- Offering preferential discount rates for buying of receivables under ESCO contracts;

- Accepting energy savings, i.e., costs saved from energy supply, as collateral, instead of land, mortgage, and the like;

- Allowing longer credit terms, for example 15-20 years, in order to minimize the payments from the beneficiaries and make the loan more accessible;

- Insuring the receivables of ESCO companies, providing protection of their cash flows in case of missed payments from their clients.

There is ample room for action that can be taken by the NDF to support and further develop the ESCO business model. For example, the NDF can offer partnerships to public and private beneficiaries and lead them on their way to implement the ESCO approach throughout the project cycle, which includes:

- Beneficiaries could have at their disposal a registry of pre-qualified ESCO companies with proven experience and a portfolio of qualified projects. The NDF in cooperation with the ESCO sector can establish a minimum set of standards to be covered and registered;

- Beneficiaries could benefit from quality assurance schemes that may be adopted by the NDF to ensure the achievement of high-end project results (e.g., QualitEE project under H2020);

- The NDF can manage the public procurement process, which is more complicated in the case of ESCO. Prerequisites must be created for ESCO companies to compete on the level of EE technical solution, amount of energy saved, and costs throughout the life cycle instead of just costs for implementation of already prescribed EE measures;

- In cases of public beneficiaries and energy cooperatives, the NDF can aggregate more buildings in a single ESCO procedure, which can produce economies of scale and the inclusion of mini-grid solutions based on renewable energy sources.

The proposed approach will protect beneficiaries from making mistakes and taking wrong steps, which potentially can undermine confidence in the ESCO model. Although the value and advantages of EnPCs are clear to the beneficiaries - investments against savings, ESCO requires a wide range of expertise to make possible the successful implementation of this type of projects. Special care should be taken that capacity for delivery of integrated EE services on the market continues to emerge and develop.