



# Energy Performance Contracting

for

## EAFIP

### Construction in Innovation Procurement

#### Workshop

#### 14 November 2017

#### Prague

## Outline

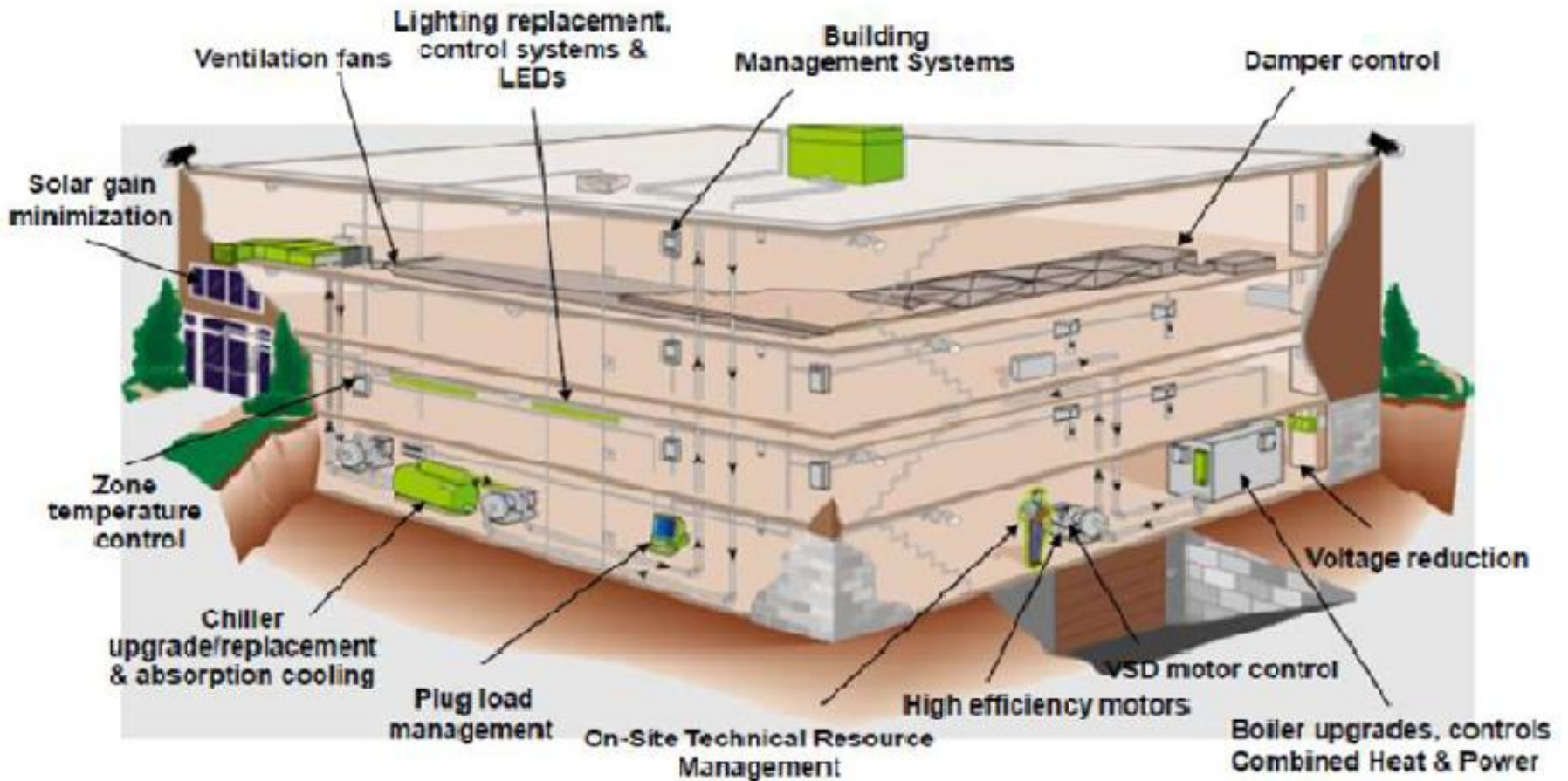
- What is Energy Performance Contracting?
- Legal background
- Options for EPC project financing
- Energy Performance Contracts
- EPC Procurement Procedure
- Conclusions

# What is Energy Performance Contracting?

## What is Energy Performance Contracting?

- A project approach for the implementation of energy efficiency and facility improvements, where the cost savings generated by the improvements service the debt from project development and construction
- No upfront capital
- **Energy service company (ESCO)** implements the program improvements and provides necessary resources in engineering, construction and financing
- Turnkey service (design, build, finance, maintenance)

# A total facility approach



Source: Scott Petersen, European Association of Energy Service Companies, London 2009

# Legal background

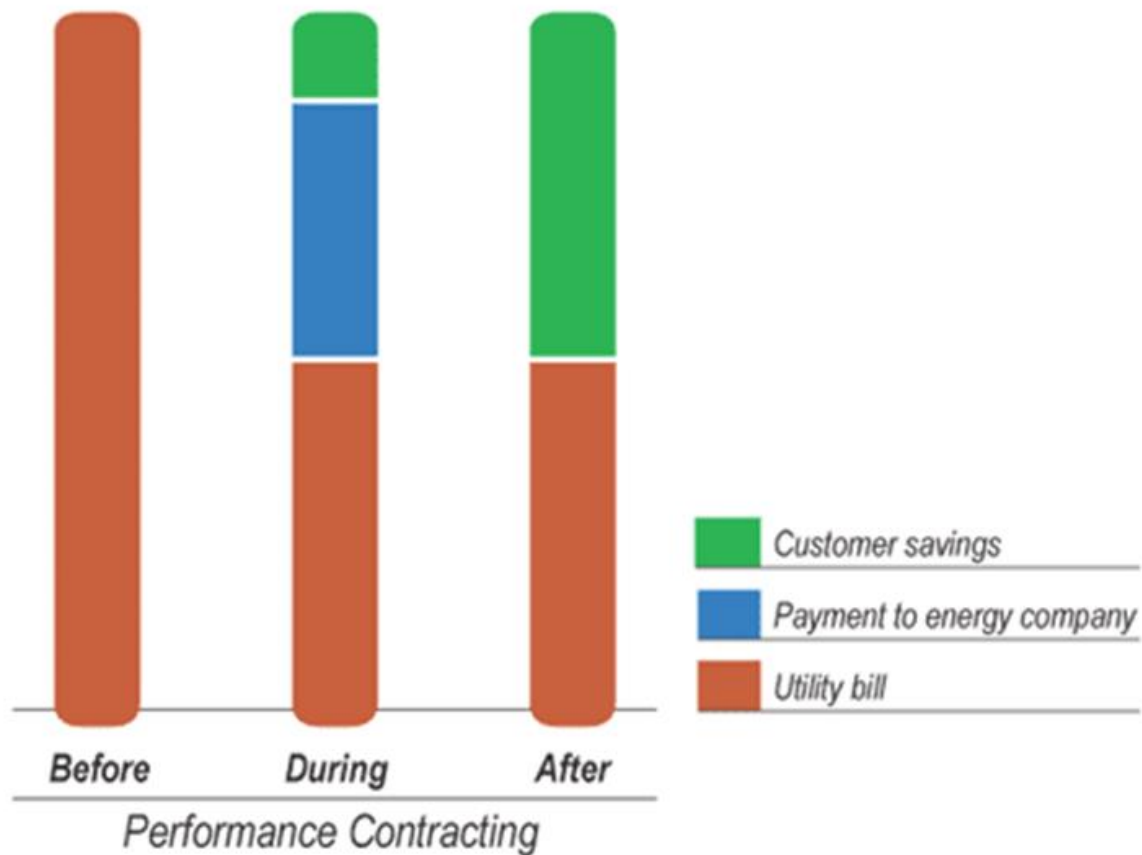
## Legal background

- Energy Efficiency is key part of EU 2020 strategy
- Directive 2012/27/EU - **The Energy Efficiency Directive**
  - Implemented by **Act on Energy Management** (No. 406/2000 Coll.)
  - A new regulatory framework that provides an opportunity to develop the EPC market
- National Legislation - **Budget Act** (No. 218/2000 Coll.)
  - Opinion of Ministry of Finance on § 49(1) x § 62 (3) + § 58 (2)
- Ministry of Industry and Trade 2011
  - EPC model contract
  - Methodology for EPC projects and tender procedure guidelines

# Options for EPC project financing



## Financing



Source: REEBA, Municipal Energy Summit, September 22, 2016

## Supplier financing x Own financing

- Supplier credit – delayed payment through savings of energy costs
- Supplier may assign claims (e.g. to a bank)
- Contractual penalties / discounts in case savings do not materialize x bonuses
- Organizational units of the Czech state (unlike municipalities, regions, state enterprises and publicly funded institutions – health, culture, education) may not use supplier credit
- Financing from the budget of contracting authority and/or EU / national funds (Operational Program / National Fund for Environment) – sustainability!
- Increased need for retention period, bank guarantees and parent company guarantees

# Energy Procurement Contracts

## Energy Performance Contracts

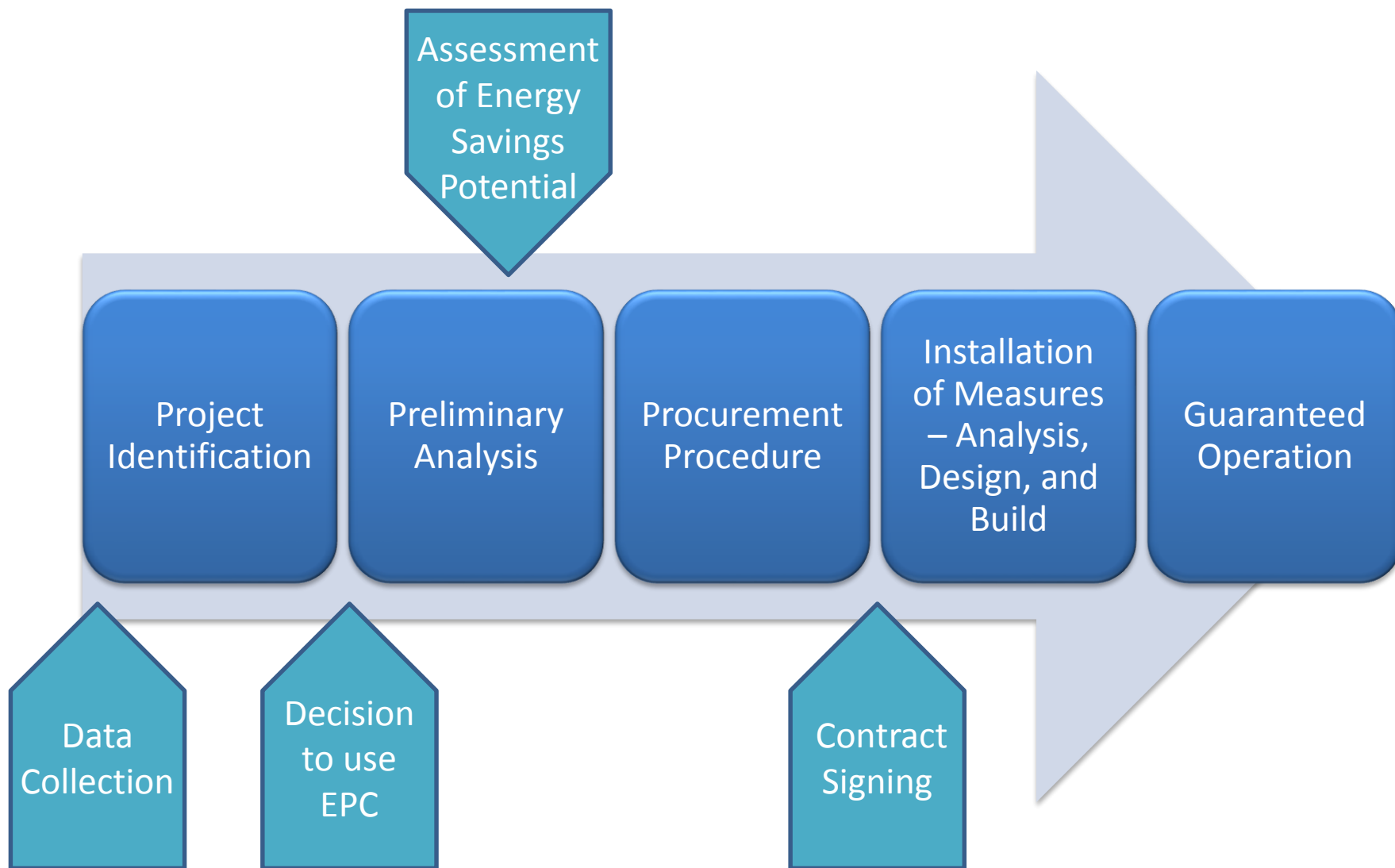
### § 10e Act on Energy Management – Minimum requirements

- Clear and transparent list of the **efficiency measures / results**.
- **Guaranteed savings** to be achieved by implementing the measures of the contract.
- **Guarantee period and reference date(s)** to establish achieved savings.
- **Duration** (6-10 years) and **milestones** of the contract, terms of **termination**.
- Clear and transparent **provisions on measurement and verification of the guaranteed savings** achieved, quality checks and guarantees (initial energy consumption and costs, initial energy prices).
- **Energy management obligations** of contracting authority / ESCO, mandatory operating conditions, remedial and recommended improvement measures, annual evaluation meetings and reports.

## Energy Performance Contracts

- Steps to **fully implement and maintain the measures** in the contract and **documentation of all changes** made during the project.
- Provisions clarifying the procedure to deal with **changing framework conditions** that affect the content and the outcome of the contract (i.e. changing energy prices, changing use of buildings, regulatory changes, additional investments).
- Regulations specifying the inclusion of equivalent requirements in any **subcontracting** with third parties.
- Clear and transparent display of financial implications of the project and distribution of the **share of both parties** in the monetary savings achieved (i.e. **remuneration of the service provider – for measures and for energy management**).
- Detailed information on the obligations of each of the contracting party and of the **penalties** for their breach.

# EPC Procurement Procedure



## EPC Procurement Procedure

- Competitive procedure with negotiation
- Evaluation criteria:
  - Contract Price 30-40%
  - Savings during contract duration 45-55%
  - Quality and complexity of the technical solution 10-15%
- International Performance Measurement Protocol (IPMVP)



# Conclusions

## Conclusions

### ▪ Challenges

- Need for accurate technical and economic inputs
- Complicated contracts and tenders – evaluation criteria
- Financing – restrictions for organizational units
- Accounting
- Long-term prescribed use of buildings
- Long-term viability of ESCO

### ▪ Benefits

- Best practice - Environment / EU Compliance
- Savings
- (Easier access to finance)

# Thank you for your attention!

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