

Working Group I:

## Development of the ESCO market

# Proposal to Upgrade the Envisaged ESCO mechanism in NRRF STAGE II

Concept for a pilot ESCO procedure

## Summary

*In view of the interest found by the Condominium to benefit from the ESCO mechanism for financing and implementing the process of renovation of Bulgarian homes within Stage II of the Recovery and Resilience Plan, as well as on the basis of the framework already set for ESCO option in the Guidelines for Applicants, we propose for prior coordination between stakeholders of a procedure, to provide a corridor for proactive citizens to reap the benefits of this innovative mechanism. We believe that this will partially alleviate the risk of non-utilization of grant resources and will give a horizon of action to initiative citizens in order to preserve the positive impetus created by the national programs for renovation of multifamily residential buildings.*

The motivation for this proposal is the established desire of condominiums ("ETS") to take advantage of the advantages of the ESCO mechanism when applying for renovation of their buildings within STAGE II of the NPU and the lack of clarity in municipal administrations to capacitively organize and conduct the processes that will lead to successful implementation of the envisaged ESCO option in the Guidelines for Applicants ("the Guidelines").

Unclear are the provisions in the main document of the Guidelines, where the ESCO mechanism is equated with that offered by financial institutions and utility companies. Although in Appendix 14 of the information package documents it is clearly explained that ESCOs are engineering ones, with the possibility of financing, there is no impression in the municipal administrations that they have an option to select an ESCO company when conducting the tender procedures within Stage II. Their focus remains on the selection of a construction works company (a company for construction and repair works), which do not offer in addition financing of the required 20% participation by ETS. As a result, the envisaged grant resource of 80% in Stage II may remain unused and lost. Due to the lack



of funding opportunities for 20% participation by ETS and the non-supply of the ESCO option by municipal administrations, a number of Stage I candidates will refuse to apply for Stage II, and a huge number of applicants will not proceed to prepare an energy audit at all.

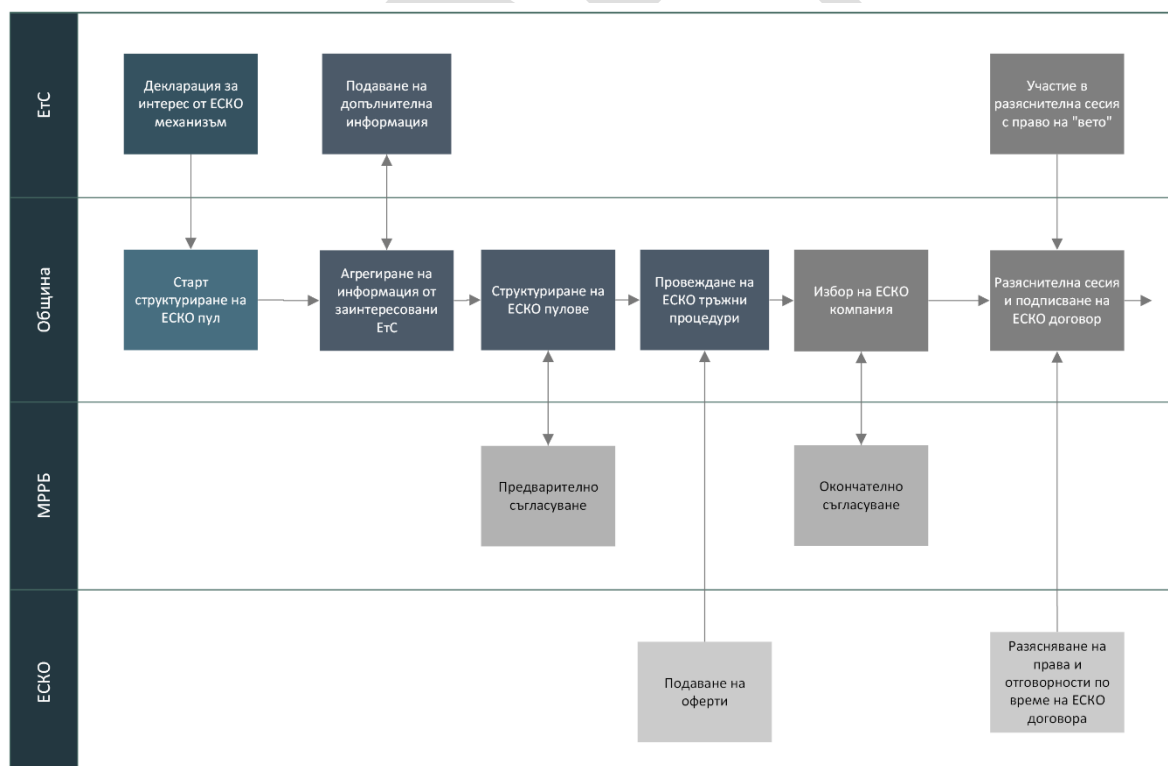
There is an opportunity to specify and upgrade the already described ESCO mechanism in the Guidelines, which will soften to some extent the identified acute deficit for financial instruments and to meet the demand for funding opportunities for 20% participation from ETS. For this purpose, it is necessary that prior coordination between the municipal administrations and the Ministry of Regional Development and Public Works not to put administrative obstacles to ETS who are willing to take advantage of the ESCO mechanism when renovating their homes within Stage II of the NPS. The following steps would support the successful application of the ESCO model:

1. Initiative citizens/ETCs declare to the municipality that they have an interest in benefiting from the ESCO mechanism within Stage II. It must be agreed in principle that
  - i. The owners will pay the ESCO the 20% investment made by it, with the help of the energy savings guaranteed by the ESCO company;
  - ii. The maintenance of the block (professional condominium manager) will be covered by the ESCO company for the duration of the contract in order to ensure the agreed energy savings and periodic collection of contributions to repay the investment (20%);
  - iii. The municipality will conduct a tender procedure for the selection of an ESCO company under condition;
  - iv. Before concluding an ESCO contract, ETC will be entitled to a final explanatory session with the selected ESCO company, as well as a "veto" in case of doubts and irregularities;
  - v. ETS will provide additional information in order to assess the creditworthiness of apartment owners who will benefit from financing by the ESCO company
2. At the request of ETS, the municipal administration undertakes to lead the process by informing the citizens that:
  - i. The ESCO option will be applied only in cases where an unutilized grant resource is available;
  - ii. The renovation of the MWS will be done in packages of buildings (pools). The structuring of a pool will be carried out by the municipality, following the principles of
    - a. Location of the buildings – in view of easy organization of engineering activities;
    - b. Type of buildings – analogous to the preceding subparagraph (a);
    - c. Creditworthiness of ETS – EtC with a higher credit rating and a higher percentage of owners who will not require funding from the ESCO company will be included in pools as a priority;
    - d. Total investment of at least EUR 7 million Lv. to structure one pool of MJS.
  - iii. The ETS must complete a questionnaire with a view to sub. v on p.1
3. Based on the information received and already available from the application stage under Stages I and II, the lead partner (the municipality) structures pools of buildings and coordinates with the Ministry of Regional Development and Public Works the parameters of

a tender procedure for the selection of an ESCO company for the implementation of the renovation of the MWS within Stage II of the NPS.

4. The lead partner conducts a tender procedure for the selection of an ESCO. Key points of the evaluation of ESCOs should be:
  - i. Cost of implementation;
  - ii. Price of the provided credit resource / financing of the required deductible of 20%;
  - iii. Amount of guaranteed energy savings;
  - iv. Price of maintenance of the buildings for the duration of the contract;
  - v. Measurement and verification methodology
5. Conducting an information session of ETS with the selected ESCO company and concluding a contract.
6. Final agreement with MRDPW that the procedure is within the permissible Stage II of the NPSU and / or pilot will be supported by 80% grant resource in sandbox mode.
7. Performance
8. Maintenance of the block and payment of the investment by the owners of apartments of the ESCO company. If the guaranteed saving is not achieved, a downward adjustment of the payout to the ESCO company follows.

General scheme of the process:





## 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



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