

Tools to support refinancing of energy efficiency services

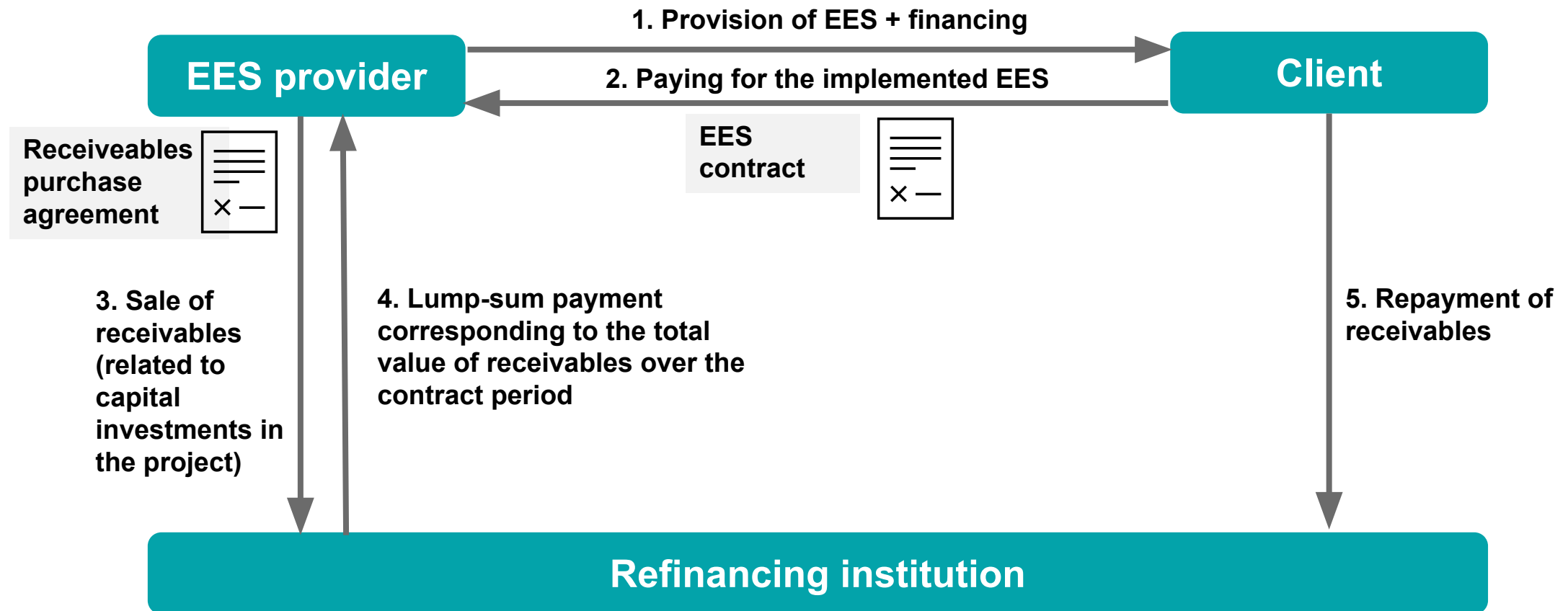
eLearning Module #3



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Refinancing model as an alternative



Scaling up the refinancing model

- › The wider use of refinancing schemes that have already been implemented is often limited by high transaction costs.

Key elements of expanding refinancing model into other, untapped, markets:

1. Standardisation of contract stipulations
2. Rating/scoring-system for quick risk evaluation of EES project
3. Public guarantees instruments for handling project risks
4. Facilitation services



REFINE tools

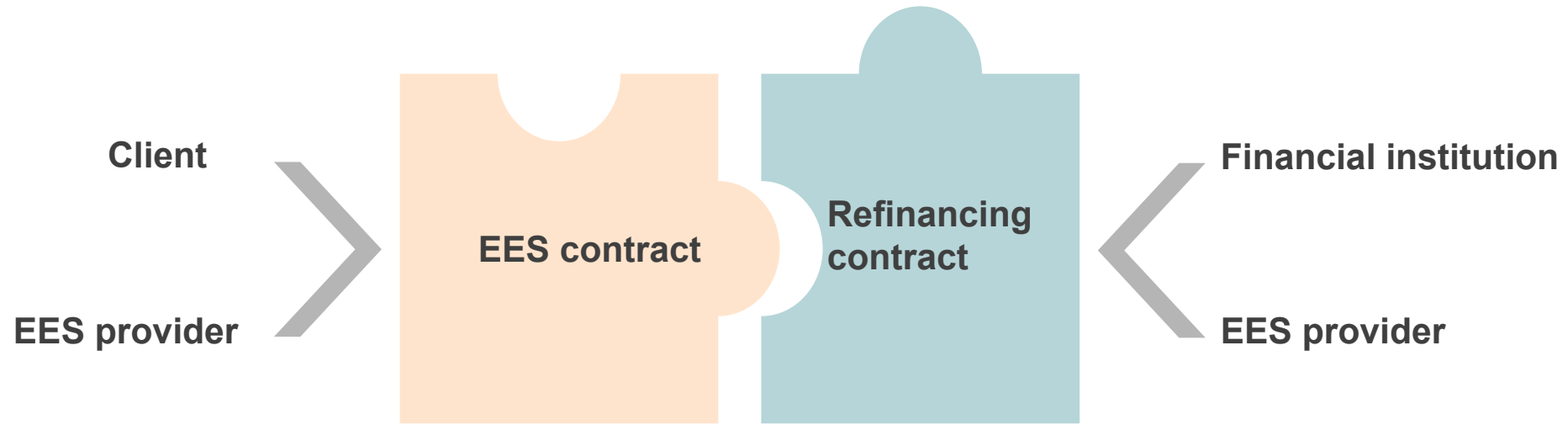
Standardised contract stipulations



Why standardise?

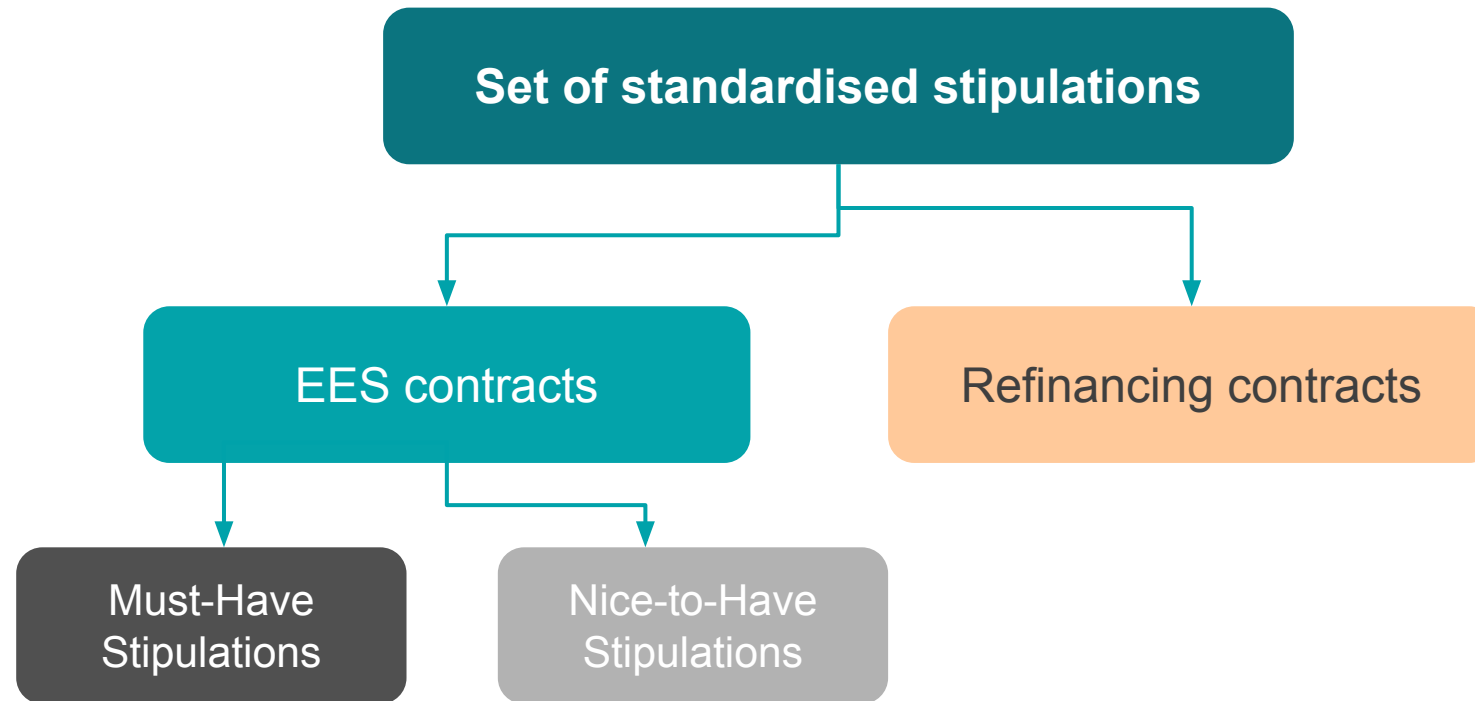
- › Non-standardised EES contracts prevent the project aggregation.
- › Enable pooling of smaller projects and bring transaction costs further down.
- › Reduce project preparation costs and preparation time.
- › Increase the transparency of the procedure.

Standardised REFINE contract stipulations



REFINE stipulations, if incorporated in EES contracts, **could increase the chance of projects being refinanced** by a financial institution after they have been implemented.

Standardised REFINE contract stipulations



Example of the EES Contract stipulation

EES contract element: Energy efficiency results

Must Have

The EES provider must provide a guarantee that the savings produced in the project will be sufficient to cover the cost of financing the project during the lifetime defined in the contract.

Nice to Have

The EES provider provides a bank guarantee or third-party insurance covering (parts of) the risk of achieving the guaranteed savings (performance risk).

Nice to Have

Definition of the environmental objectives pursued by the project, so that the project results are aligned with the criteria defined in the EU-Taxonomy for sustainable economic activities.

Remark: (Re)financing institutions are obliged to report on the sustainable share of their financing portfolio according to the technical screening criteria laid down in the EU-Taxonomy. Therefore, they are interested to get reliable information whether a project is compliant with the related requirements.

Rating system



Why do we need a rating system?



Risk evaluation of EES projects is considered an arduous task.



Rigid risk evaluation of EES projects can be attributed to the overall lack of standardised documentation and contractual agreements.

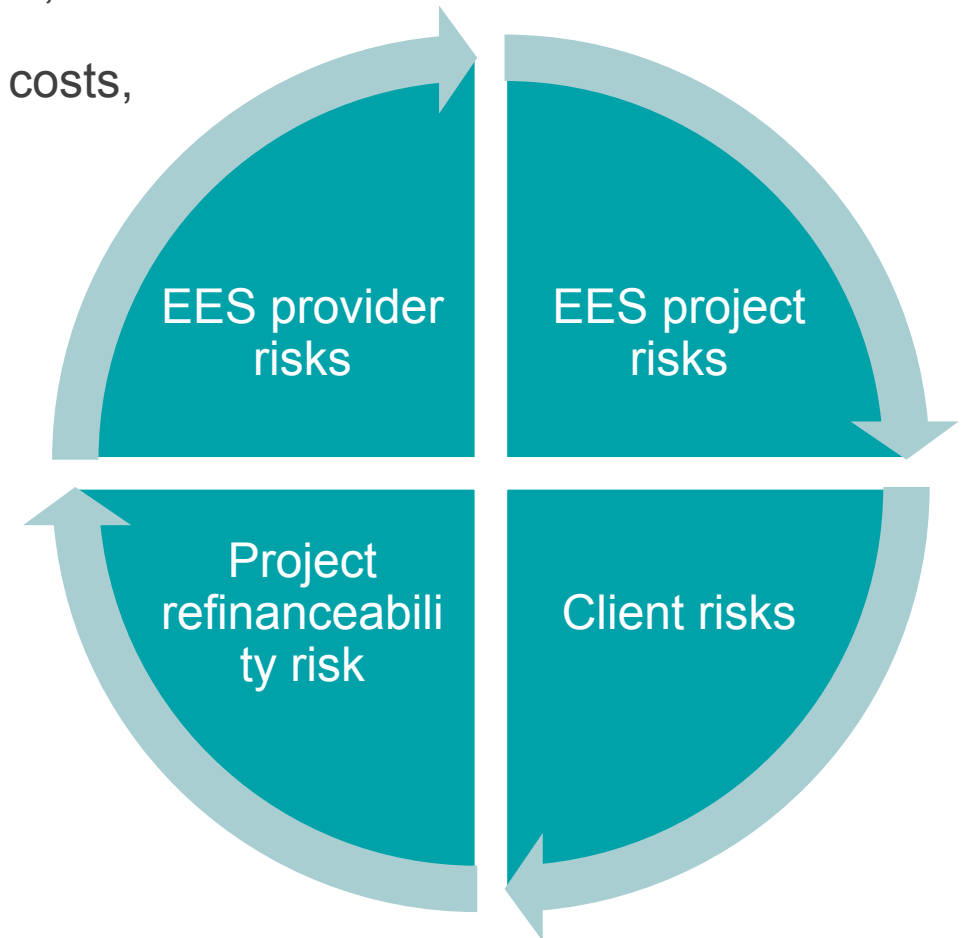


Methodological structure of risk assessment agreed by both financial institutions and EES providers.

REFINE Rating system on refinanceability of EES projects

REFINE rating system:

- › Incorporates elements specific to energy efficiency projects,
- › Diminishes financial institutions' analysis and transaction costs,
- › Diminishes refinancing costs.



Overview of the REFINE Rating System

REFINE Rating System builds upon **3 possible risk levels**.



L1 - Standard Financial Institution Default Risk Evaluation



L2 - Energy Efficiency Project Risk Evaluation



L3 - Energy Efficiency Service Contract Risk Evaluation

L1 - Standard Financial Institution Default Risk Evaluation



3 points of view

- › EES provider
- › Client
- › EES project

Stakeholders “cheat sheet”

- › Items analysed
- › Mitigants
- › Support documentation

	Definition	Type of Mitigants	Relevant Information a Financial Institution wil need when rating the refinancing operation
Rating Evaluation			
EES Provider Rating Evaluation			
Credit Risk	It is the probability of a creditor not meeting its contractual obligations (mainly paying back the financed monies) because of a default event (i.e.- bankruptcy, insolvency, etc.). When the EES provider forfeits an EES contract with a financial institution, the credit risk switches to the client from the financial institution point of view.	<i>Credit Risk Analysis, Credit Hedging, Asset Collateralization, Public Fund Guarantee, Credit Risk Monitoring and potentially Credit Insurance.</i>	<ul style="list-style-type: none">- EES provider Financial Information (Balance sheet & Income statement previous fiscal years).- Documents related to any mitigant incorporated in the operation.
Operational Risk	It is the risk of the EES provider not having very sound internal procedures (administration, billing, etc.) and it impacting in a difficulty to redeem the customer's payments.	<i>Sound procedures, appropriate levels of automation and process controls, EES provider procedure audit, operational risk provisions.</i>	<ul style="list-style-type: none">- Standard Industry certification (ISO, etc.)- EES Track record in EE projects- Procedure audits
Client Rating Evaluation			
		<i>Credit Risk Analysis, Credit</i>	

L2 - Energy Efficiency Project Risk Evaluation



Risk Items

- › Weighted
- › Descriptive

Expert Rating System

- › 3 Qualitative levels (Low-Medium-High)
- › Qualitative or Quantitative scenarios associated
- › Mitigant incorporation
- › Final Score – Global Score

Risk Item	Weight	Description	5 Low Risk	3 Medium Risk	1 High Risk	Initial Score	Mitigants	Final Score	EES Clause (L3)
EES Provider		30%							4,6
Experience as an EES provider / in Energy Efficiency Services	30%	It refers to how experienced is the company in the energy services sector.	Experienced	Not very experienced	No experience	5		5	N/A
The EES provider is experienced in the segment in which the EEP is implemented	20%	It refers to how experienced is the company in the sector in which the energy efficiency project is implemented (buildings, lighting,	Experienced	Not very experienced	No experience	3		3	N/A
The EES provider has experience with the applied technology	20%	It refers to how experienced is the company with the technology used to implement the EES contract	Experienced	Not very experienced	No experience	5		5	N/A

L3 - Energy Efficiency Service Contract Risk Evaluation



Two types of stipulations

- › Must have
- › Nice to have

Two types of contracts

- › EES contracts
- › Refinancing contracts

EES PROJECT REFINANCEABILITY [EES Contract Checklist]

1.- The following stipulations **must** be included in an EPC Contract to make sure the project is refinanced without recourse by a Financial Institution. Otherwise, it won't be refinanced.

- ☐ 1 The contract reflects a compromise and valuation of the savings that the energy efficiency project will attain.
- ☐ 2 The contract reflects how said savings will be measured against a baseline energy consumption calculation prior to the installation. The methodology and frequency of the energy consumption calculation after the installation will be based in internationally accepted standards.
- ☐ 3 The contract states how the performance on savings (shortfall or excess) reflects on the payments due by the client.
- ☐ 4 The ESCO operates and maintains the installation in order to ensure the savings are accomplished.
- ☐ 5 The ESCO is allowed to rectify the design of the project in case of poor performance.
- ☐ 6 The ESCO may transfer financial rights and obligations to a third party without client consent
- ☐ 7 The Installation or Equipment that generates the energy efficiency improvement is insured by a third party
- ☐ 8 It is clearly stated whether the installation/equipment may be used as collateral in a future financing operation.
- ☐ 9 It is clearly stated that the responsibility for the design, construction, installation and performance of the equipment lies with the ESCO throughout the contract duration.
- ☐ 10 It is clearly stated in the contract which party owns the installation/equipment that generates the energy efficiency improvement throughout the contract's duration.
- ☐ 11 There is an independent third party that audits and validates the energy efficiency project from a technical point of view, as well as the baseline energy consumption calculations and the energy consumption savings that the project will achieve.

Public guarantees



Why do we need public guarantees for EES projects?



The major impediments for financing EES projects are counterparty credit risks and technical performance risks.



Two risk types may result in cash shortfall:

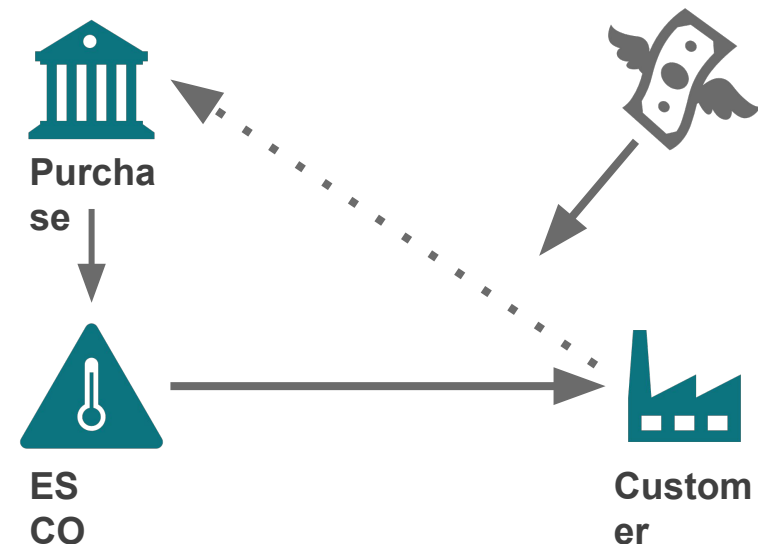
1. Credit risk,
2. Performance risk.



The objective of state-backed guarantees for financing and refinancing EES investments would be to speed up CO2 reduction in the buildings and industry sector.

Ideal public guarantee

- › The “ideal” guarantee would be an unconditional bank guarantee which is covering exactly any scheduled amount when due.
- › Such guarantee has to be:
 - › Unconditional,
 - › Assignable,
 - › Callable when payment becomes due.
- › Full overview of a guarantee policy suggestion that can be implemented in EU countries can be found on [a dedicated site](#).

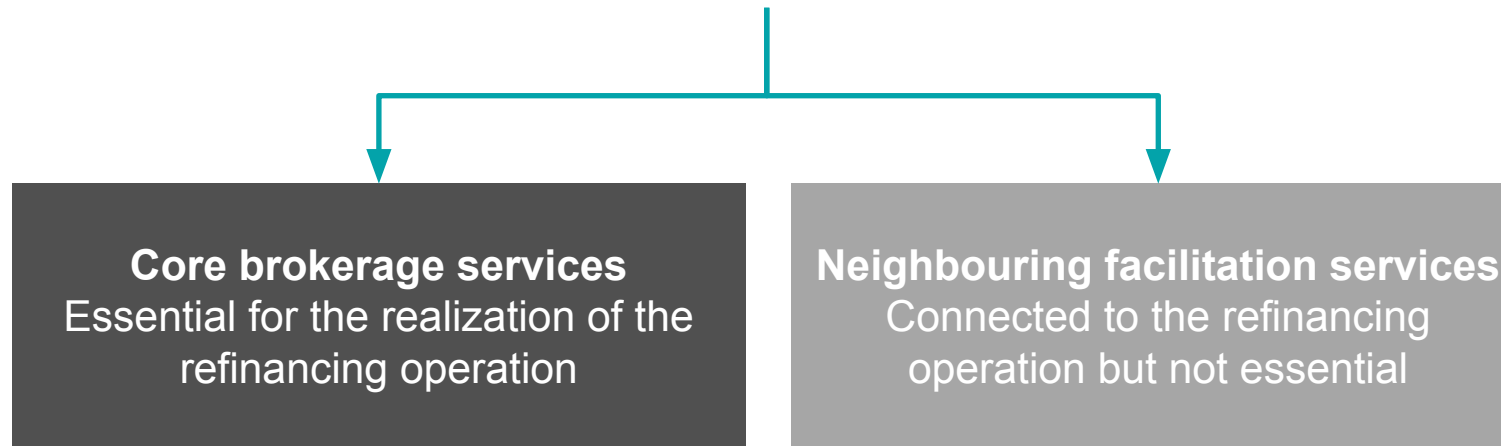


Facilitation services



REFINE facilitation services

- › Standardised brokerage services provided by facilitators to foster EES.
- › These services can differ on their fit across the different stages of the refinancing process and on the nature and the degree of connection with the refinancing operation.
- › REFINE consortium has developed a number of facilitation services to support interested parties in refinancing energy efficiency projects.



REFINE facilitation services

Types of facilitation services:



Matchmaking between refinancers and clients,



Estimation of the operation returns,



Due diligence during the refinanciability check,



Concluding the operation.

- › Each partner offers facilitation services based on the local market and stakeholder needs.
- › To find out more about **how REFINE partners can support you** in facilitating your refinance-based investment, contact REFINE partner in your country.

REFINE partners

Country	Partner
	Austria e7 Energy Innovation & Engineering
	Croatia North-West Croatia Regional Energy Agency (REGEA)
	Czechia SEVEN – The Energy Efficiency Center
	Greece Centre for Renewable Energy Sources and Saving (CRES)
	Italy Federesco
	Ireland Carr Communications
	Latvia Funding for Future (F3)
	Slovenia Jožef Stefan Institute Energy Efficiency Centre
	Spain Creara
	Ukraine Housing and Municipal Reform Support Centre (NGO HMRSC)



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<https://refineproject.eu/>



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