

The EPC Code of Conduct: a Quality Step Forward for the EU ESCO Markets

The Hungarian case

Benigna Boza-Kiss

GreenDependent Institute



The Transparensence project

Project Summary



- ESCO challenge throughout Europe: unclear idea of the concept, lack of trust/confidence, impact of earlier failures
- Main goal of Transparensence project is to increase the **transparency and trustworthiness of Energy Performance Contracting (EPC) markets** and to support the transfer of know-how and experience across the countries.
- With its 20 partners, the project covers both mature and beginner EPC markets and can accelerate **exchange of experience and standardization**.
- Runs between April 2013 and September 2015



Transparens Partners



SEVEN	The Energy Efficiency Center
EEVS	EEVS Insight
IJS	Jozef Stefan Institute
BEA	Berliner Energieagentur GmbH
IVL	IVL Swedish Environmental Research Institute Ltd.
Factor4	Factor4
e7	e7 Energie Markt Analyse GmbH
BSERC	Black Sea Energy Research Center
DTTN	Trentino Technological Cluster S.c.ar.l.
LEI	Lithuanian Energy Institute
ECN	Energy research Centre of the Netherlands
KAPE	The Polish National Energy Conservation Agency
ISR-UC	ISR - University of Coimbra
ECB	Energy Centre Bratislava
ESCAN	Escan s.l. Anatoliki Development Agency of Eastern Thessaloniki's
REACM	Local Authorities S.A
GDI	GreenDependent Institute Nonprofit Ltd
Ekodoma	Ekodoma
ECNet	Energy Consulting Network
NEE	Norsk Enøk og Energi AS

- Czech Republic
- United Kingdom
- Slovenia
- Germany
- Sweden
- Belgium
- Austria
- Bulgaria
- Italy
- Lithuania
- Netherlands
- Poland
- Portugal
- Slovakia
- Spain
- Greece
- Hungary
- Latvia
- Denmark
- Norway



Transparensence results

EPC markets overview



- **Online databases** with a core level of market information to help improve transparency and to enable informed decision-making:
 - existing ESCOs and ESCO associations
 - types of EPC models & financial models
 - EU and country-level policy initiatives(see at: <http://transparensence.eu/database/models/>)
- **Recommendations for action** for ESCOs & policy makers to remove barriers presented at workshops & steering committees)
 - Country Reports and combined European reports on Identified Barriers and Success Factors for EPC & National Reports on Recommendation for Action for Development of EPC markets(see at: <http://transparensence.eu/eu/epc-databases/reports>)



Transparensence results

Developing the EPC supply side



- The developed **training modules** tailored to the particular stage EPC market are to be used in **77 trainings** delivered to ESCOs and or clients (3-4 per partner)
- **Helpdesk and twinning**
- 3 workshops and 3 national position papers to promote **ESCO associations** in particular in Slovenia, Sweden and Netherlands
- Promoting **networking**: workshops, trainings, building facilitation meetings
- development of a trustworthy EPC market by **creating the EPC Code of Conduct** for energy services providers (ESCOs) and their clients.

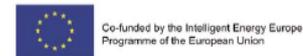


The EU EPC Code of Conduct

Final version of 11 July 2014

European Code of Conduct for
Energy Performance Contracting

Version as of 11 July 2014



Transparensence results

Developing trust: Code of Conduct



- Transparensence project is to create, test and launch the market adoption of a **European EPC Code of Conduct** in the 20 participant countries
- Bottom-up action
- Adopted by the supply side, targeted at demand side, supported by policy-makers



Definitions

Transparence Definition of ESCO



- A typical EPC project is delivered by **ESCO = Energy Service Company**
- **EED definition of energy services provider:**
 - “a natural or legal person who delivers energy services or other energy efficiency improvement measures in a final customer’s facility or premises”
- **Transparence (narrowing) definition of ESCO:**
 - “a natural or legal person who delivers energy services in form of Energy Performance Contracting (EPC) whose main feature is guarantee of savings”



EPC Code of Conduct

Line of action (1)



- Review of similar codes (other sectors or countries where similar ESCO initiatives existed)
- First proposal: discussed locally (ESCO market stakeholders, national and EU Steering Committees, Workshops, policy-makers)
- Final version of the CoC
- Supporting documents: rules, signatory forms, web-representation of signatories
- Analysing different ways of introduction
 - Stay on bottom-up, voluntary & self-organized level
 - National manager and systematic approach, but still voluntary
 - Move towards certification schemes(concrete recommendations & proposals for Czech Republic and Austria)



EPC Code of Conduct

Line of action (2)



- Establish links: e.g. endorsement by eu.ESCO & EFIEES
- Advertise, disseminate
- Collect signatures (started on 1 Sept 2014)
- Publish on website
- Testing



EPC Code of Conduct

Content and main message



- Defines a set of rules to ensure a transparent and trustworthy high quality EPC markets
- Provides the definition of EPC
- Key message: EPC represents a fair business on energy efficiency
- Key values & 9 principles



Efficiency

- Energy savings
- Economical efficiency
- Sustainability in time

Professionalism

- Expertise
- High-quality service
- Health and safety concerns
- Good name in the sector and project
- Reliability
- Responsibility
- Respect
- Responsiveness
- Objectivity

Transparency

- Integrity
- Openness
- Long-term approach
- Transparency of all steps and financing arrangements
- Clear, regular and honest communication

- **EPC provider delivers economically efficient savings**

The EPC provider aims at **economically efficient combination** of the energy efficiency improvement measures. Such combination of the measures **maximises the net present value of an EPC project for the Client** defined as sum of all the discounted costs and benefits (especially operational cost savings) associated with implementing the project.

- **EPC provider takes over the performance risks**

The EPC provider **assumes contractually agreed performance risks** of the project during the whole duration of the EPC contract (hereto contract). These include the risks of not achieving contractually agreed savings as described below as well as design risks, implementation risks and risks related to operating of the installed measures.

CoC

Principles

- **Savings are guaranteed by EPC provider and determined by M&V**

The EPC provider **guarantees the achievement of the contractually agreed level of savings**. In case an EPC project fails to achieve performance specified in the contract, the EPC provider is obligated by the contract to compensate savings shortfalls that occurred over the life of the contract. The excess savings should be shared in a fair manner according to the methodology defined in the contract.

Contractually agreed savings as well as achieved savings are determined in a fair and transparent manner **by Measurement and Verification (M&V) using appropriate methodology** (such as IPMVP) as defined in the contract. The contractually agreed savings are determined based on data provided by the Client and realistic assumptions. The achieved savings are calculated as a difference between energy consumption and/or related costs before and after implementation of energy efficiency improvement measures.

- **EPC provider supports long-term use of energy management**

The EPC provider **actively** supports the Client in the **implementation of an energy management system** during the contract period and eventually after the contract period by agreement. This supports the benefits from the project to sustain also after the contract period.

- **The relationship between the EPC provider and Client is long-term, fair and transparent**

The EPC provider works together with the Client **very closely and as partners** with the common objective to achieve contractually agreed level of savings. The EPC provider strives to keep their relationship long-term, fair and transparent. They both provide access to their information which is relevant to the project in a non-distortive manner. Both EPC provider and Client fulfil their obligations according to the contract terms. For instance, EPC provider is committed to inform the Client on the results of measurement and verification of the savings. On the other hand, the Client is committed to inform the EPC provider about any changes in the use and operation of its facilities during the contract duration that could affect the energy demand.

CoC

Principles



- **All steps in the process of EPC project are conducted lawfully and with integrity**

The EPC provider and Client **comply with all laws and regulations** that apply to the EPC project in the country in which the project is implemented. The EPC provider and the Client avoid conflict of interests and apply a **zero tolerance policy against corruption** and self-dealing.

- **EPC provider supports Client in financing of EPC project**

The EPC provider **supports the Client in finding the most suitable solution** providing for project financing taking into account the relevant conditions of both parties. The capital to finance the EPC project can either be supplied out of the Client's own fund, by the EPC provider or by a third party. **Provision of financing by the EPC provider is an option, not a necessary part of the EPC project.**



- **EPC provider ensures qualified staff for EPC project implementation**

The EPC provider maintains a qualified staff in order to provide the right **technical, commercial, legal and financial know-how and skills**. EPC provider ensures that the experts working for them have the adequate qualifications and capacities related to the preparation and implementation of the EPC project. Less experience on the Client side can be balanced by a specialized **advisory company (such as EPC facilitator)** that will steer the correct implementation and procurement of the EPC project on his side.

- **The EPC provider focuses on high quality and care in all steps of project implementation**

The EPC provider uses **well designed procedures, high-quality and reliable equipments and products**, and cooperates with reliable **sub-suppliers**. It adheres to the principles of ethical business conduct, meets its obligations towards sub-suppliers and conducts itself responsibly with respect to Client and its representatives.

CoC Procedure



1. The ESCO signs the CoC accession form
2. Sends it to the national code manager
3. The national manager approves the signature
4. Placement on the Transparensense website
- 5.A The ESCO promotes the CoC in its offers and refers to it in its contracts

OR

- 5.B the client asks for offers by ESCOs that have signed the CoC / gives benefits within the evaluation of offers and asks for it in the contract



Transparensence results

EPC pilot projects



- Implementation of at least **25 EPC pilot projects**
- To test and provide feedback on the developed EPC code of conduct
- Best practice examples from the implemented projects will also be selected and promoted in dissemination activities



An example of adoption of the CoC

The Hungarian case



EPC pilots

the Hungarian background



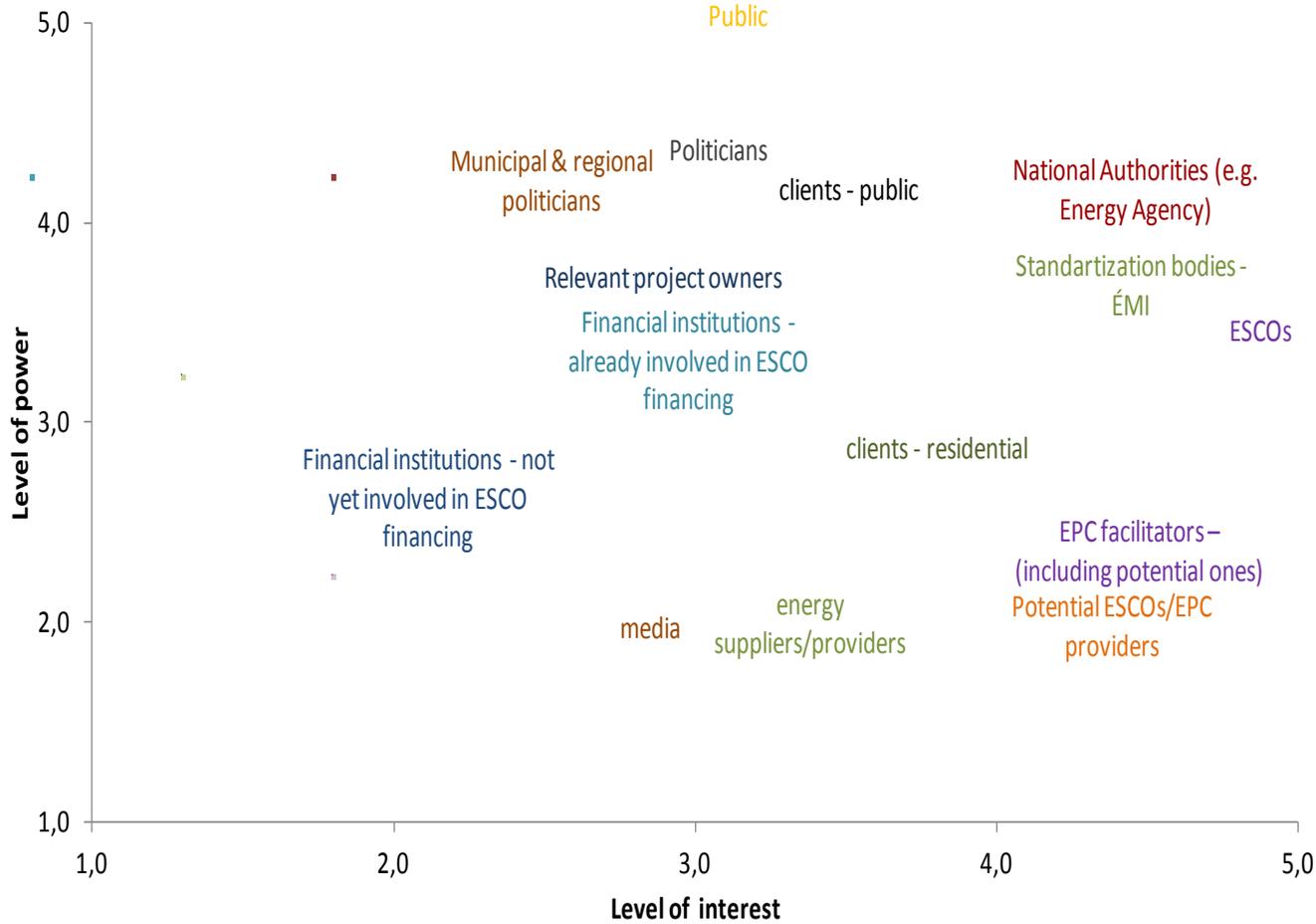
Roller-coaster history of the Hungarian ESCO/EPC market:

- While in the early 1990s Hungary was known as an exemplary ESCO market,
- it started fluctuating from around 2006, and continued its insecure stride during 2007-2010.
- Since 2009-2010, obstacles have grown so significant that the previously 20-30 active companies were reduced to 6-8 in 2014.
- The Hungarian ESCO market has experienced a strong decline during the last 4-5 years.



The Hungarian market

Market description, players



The Hungarian market

Barriers to be resolved by CoC



- Problems with the policy framework:
 - several relevant strategies, but weak energy efficiency and buildings policies and implementation;
 - promise of non-refundable grants that prove to be rare and little;
 - little action on and no practice of EE procurement
 - entrance of a public ESCO (?).
- Policy instability:
 - counteractive policies and decisions for EPC;
 - ownership changes of public buildings & centralisation („lost” investments in EE);
 - rapid policy making and unexpected legal changes;
 - political messages are counteractive: political goal of utility cost reductions by regulation, support for nuclear energy,
 - Political rhetoric to discourage bank loans.
- Structural barriers: failed projects (“cheaters”)



The Hungarian market

Barriers to be resolved by CoC



- Therefore the financial bases are also instable:
 - liquidity problems of the potential clients and also of many ESCOs;
 - fear of bank products due to the credit crash;
 - if available grants are of too high intensity (few projects only, little leverage, no need for ESCOs) or EPC excluded;
 - available bank products are not designed to the preferences of an ESCO project participants;
 - unexpected special taxes on banks and energy providers (among others).
- Information barriers:
 - Still little/not known for potential clients;
 - lack of trust in the construction sector in general;
 - lack of trust in subcontractors by ESCOs;
 - lack of long term thinking and planning.



The Hungarian market

Barriers that can be resolved by CoC



- **Problems with the policy framework:**
 - several relevant strategies, but weak energy efficiency and buildings policies and implementation;
 - promise of non-refundable grants that prove to be rare and little;
 - little action on and no practice of EE procurement;
 - entrance of a public ESCO (?).
- **Policy instability:**
 - counteractive policies and decisions for EPC;
 - ownership changes of public buildings & centralisation („lost” investments in EE);
 - rapid policy making and unexpected legal changes;
 - ✓ political messages are counteractive: political goal of utility cost reductions by regulation, support for nuclear energy,
 - Political rhetoric to discourage bank loans.
- ✓ **Structural barriers: failed projects (“cheaters”)**



The Hungarian market

Barriers that can be resolved by CoC



- Therefore the financial bases are also instable:
 - liquidity problems of the potential clients and also of many ESCOs;
 - fear of bank products due to the credit crash;
 - if available grants are of too high intensity (few projects only, little leverage, no need for ESCOs) or EPC excluded;
 - ✓ available bank products are not designed to the needs/possibilities;
 - unexpected special taxes on banks and energy providers (among others).
- Information barriers:
 - ✓ still little/not known for potential clients/ considered a simple financial source;
 - ✓ lack of trust in the construction sector in general;
 - ✓ lack of trust in subcontractors by ESCOs;
 - ✓ lack of long term thinking and planning.



The Hungarian market

The role of CoC in Hungary



- Helps in the selection of the suppliers (based on merit);
- Enables new actors to enter the market;
- Provides additional basis for financing cooperation;
- This is not the single most important tool for a successful EPC future, but it is considered as a very important one.
- There is a common agreement on 2 follow-up directions:
 - transform the CoC from a voluntary format towards a more structured, ideally official certification scheme;
 - the establishment of an ESCO association (who will manage such an organisation?).



The Hungarian market

The status of CoC in Hungary



- The CoC and support materials are available in Hungarian;
- Several workshops and dissemination activities;
- 2 signatories [vs. 6-8 existing EPC suppliers] and a promise from almost all;
- Current phase: identifying pilot projects and popularisation amongst clients and other stakeholders (esp. financial institutions and policy-makers)
 - **Energy Hungary**: contracts the efficient use of waste heat from the production process of a construction material producer company – the CoC is referred in the contract

www.energy-hungary.hu



- **Cothec**: public project – the CoC will be preferred in the tender by client

<http://cothec.hu/>



Contact: Benigna Boza-Kiss

benigna@greendependent.org,

+36-30-4124765

GreenDependent Institute

www.intezet.greendependent.org

www.transparense.eu

The sole responsibility for the content of this presentation lies with the authors. It does not necessarily reflect the opinion of the European Union. Neither the EACI/EASME nor the European Commission are responsible for any use that may be made of the information contained therein.

