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MINISTRY OF REGIONAL FLOPMENT C7



FI's for state owned public buildings: Lithuania's experience

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FI's for state owned public buildings: Lithuania's experience

- WHY FI's (ESCO)?
- UNDER WHICH CONDITIONS?
- HOW?
- WHAT ARE THE CHALLENGES AND RISKS?

WHY FI's (ESCO)?

 The Energy Efficiency Directive setting
obligation to renovate at least 3% of total floor area of buildings owned and occupied by central governments per year

 Identified funding gap for central government building renovation Requirement to renovate 66.703 m² floor area per year in Lithuania (466.924 m² until 2020)



WHY FI's (ESCO)?

Government owned buildings

Proposed FI	Loans
Total amount contributed from ESIF	65 mln. EUR
Total amount assimilated by final beneficiaries	124,5 mln. EUR
Private funding attracted	74,7 mln. EUR

WHY ESCO?



UNDER WHICH CONDITIONS – establishment of ENEF

- Energy Efficiency Fund was established on the 18 February 2015 by the Ministry of Finance, Ministry of Energy and Public Investment Development Agency.
- The contribution to ENEF is 79,6 million EUR:
 - Up to 65,1 million EUR will be provided for the modernization of central government public buildings as loans;
 - Up to 14,5 million EUR will be provided for street lighting modernization projects as guarantees.
- A revolving effect of the fund allows re-investing in new energy efficiency projects and thus increasing the portfolio of projects financed

UNDER WHICH CONDITIONS: structure of ENEF



UNDER WHICH CONDITIONS: main documents

- Energy Efficiency ex ante assessment approved by the Monitoring committee
- Fund Agreement between MoF, MoE and VIPA (sets out the main conditions of managing the Fund)
- Program for Increasing Energy Efficiency of Public Buildings (explains the need for public financing, lists types of financing, institutions involved, eligible applicants, main requirements for projects) – approved by the Government
- Standard ESCO documentation approved by MoE
- Conditions for Providing Loans for Modernisation of Centrally Owned Public Buildings (sets out the loan conditions) – approved by VIPA

HOW: ELENA program

- The European Local Energy Assistance (ELENA) facility provides financial and technical assistance to help local and regional authorities attract funding for sustainable energy projects
- VIPA implements consultancy services project "Supporting the Development of the ESCO Market in Lithuania: Preparation of standardized typical documents and tenders for ESCO energy efficiency projects in Lithuania" under EBRD-ELENA facility
- Two main objectives:
 - Preparation of standard ESCO documentation
 - Technical assistance for projects (minimum 6 million EUR investments)
- Total value of project 292 060 EUR, required multiplier effect 1:20 (investments 5,26 million EUR)
- Projects implemented and financed until 31 December, 2017 VIPA's responsibility

HOW: types of applicants from ENEF



Centrally owned public buildings are managed by different types of institutions that have a different juridical form. Due to this loans from ENEF are:

- loans for ESCO's (applicant is a budgetary institution (cannot borrow on their own) or a public institution, a loan is provided to an ESCO)
- Loans for public institutions that can borrow themselves (applicant is a public institution)

HOW: Financing conditions

Main loans condition:

- Fixed 2 % annual interest (if 12 month Euribor rate do not exceed 2%)
- 2 types of repayment: annuity and linear
- Loan period up to 20 years
- Loan is given up to 80 % eligible expenditure, when the borrower is ESCO
- Loan is given up to 100 % eligible expenditure, when the borrower is central government building manager
- Up to 20 % subsidy is given:
- a) In a form of subsidy for technical support for documentation preparation (costs of preparation of investment project, energy audit and energy certificate as well as technical project and project monitoring)
- b) In a form of interest subsidy when project results are met (energy class C)
- ESCO must contribute their own funds no less than 20 % from project value

HOW: Requirements for projects

- ESCO is operating in EU territory
- Project must confirm Nacional energy independence strategy and Energy efficiency for public buildings program:
 - \circ Energy class of a building **must be D or lower**
 - Investments payback period **shorter than 20 years**
 - Building usage by purpose **not shorter than 10 years**
- Eligible expenditure incurred since 2014-01-01
- Centrally owned public building must be managed by budgetary or public institutions (state enterprises are not eligible applicants)
- 51 % of a building must belong and be used by the state
- Requirement to use a building efficiently (used building's floor area not to exceed 25% of the norm)
- No requirements for minimum savings, at least energy class C reached

HOW: Eligible expenditure

- Modernisation of heating and hot water systems
- Modernisation of ventilation and recuperation
- Modernisation of lighting system
- Building insulation (roof, walls, windows, doors etc)
- Modernisation of boiler systems
- Preparation of technical documentation

Renewables are not eligible expenditure, yet an ESCO on their own expenses can set it up









HOW: current situation

- 3 pilot projects (Police department offices)
 - Public procurement documents under preparation for these projects
 - 16 applications received so far, 1 rejected due to not meeting eligibility criteria, the rest under evaluation



HOW: Selecting an ESCO (I)

Negotiated procedure with publication of a contract notice

Prequalification selection After prequalification selection 3 most suitable candidates invited to submit tenders

Negotiations

Invitation to submit final tenders Evaluation of tenders (technical and financial proposals)

Awarding of the contract

HOW: Selecting an ESCO (II)

Νο	Pre-qualification Selection Criteria	Relative importance Coefficient
1.	A Candidate's average annual income over the past 3 financial years	20
2.	A Candidate's liquidity ratio over the past year	10
3.	A Candidate's experience in implementing consulting services agreements of which has been the specific solutions allowing reduction of electricity and/or heat costs over the past 3 years	15
4.	A Candidate's experience in providing services of maintenance/operation of the utility systems	15
5.	A number of contracts on renovation of buildings with a value of at least EUR million, successfully implemented by a Candidate during the past 3 years	40

HOW: Selecting an ESCO (III)

No	Evaluation Criterion	Maximum Score	Weighted Score
1.	Price (P)	P(max) – 100	X=50
2.	Energy Savings (Thermal and Electrical) (T)	T(max) – 100	Y=20
3.	A Candidate's ratio of own funds to the funds to be borrowed from the ENEF (Q)	Q(max) – 100	A=20
4.	Tender quality (K)	K(max) – 100	Z=10

The economic advantageousness (S) is calculated by adding up the scores of the Price (P), Energy Savings (T) ratio of own funds (Q) and Tender quality (K): S=P+T+Q+K

CHALLENGES AND RISKS

- Success of ESCO model
- EUROSTAT interpretation regarding state debt
- Deadline to reach investments time needed to start appreciating ESCO model, develop it and learn how to apply it
- Lack of ESCO companies in the market
- Long payback period of public buildings renovation projects
- State aid issues
- PPP related issues



CHALLENGES AND RISKS: Managing the risks of state debt

 A provision in the Program for Increasing Energy Efficiency of Public Buildings that each year the MoE after getting an approval from the MoF submits for Government's approval annual liabilities implementing modernisation projects through ESCO model

CHALLENGES AND RISKS: Managing the risk of long payback period

- Programfor Increasing Energy Efficiency of Public Buildings foresees 2 types of financing:
- 1. Loans
- 2. Repayable assistance
- Type of support when repayments depend on project results (it is not a FI!)
- Repayable assistance for centrally owned public buildings where the market fails (no ESCOs, long payback period (> 20 years) or there are legal and/ or security constrains for an ESCO (e.g. government building)
- Art. 61 of the CPR: "Operating cost-savings generated by the operation shall be treated as net revenue unless they are offset by an equal reduction in operating subsidies."

CHALLENGES AND RISKS: Managing the risks of State aid (1)

- State Aid identified in Energy Efficiency *ex ante* assessment:
- Establishers of the fund: Note
- Manager of the fund:
- Private investors:
- Beneficiaries (managers of centrally owned public buildings):
- ESCO's: NOT Ves
- Construction companies: *

CHALLENGES AND RISKS: Managing the risks of State aid (2)

- Types of public buildings: administrative, health care, social care, education, sports, cultural sector etc.
- State Aid possibly in these sectors: health care (not covered by the GBER, possibly fall under SGEI), cultural (covered by the GBER)
- *de minimis* aid for tenants and co-owners

CHALLENGES AND RISKS: managing the risks of PPP

- ESCO model modernisation projects are PPP projects
- under Lithuanian law (according to Public Procurement Law) when agreements exceed 3 years, projects are not covered by this law – PPP rules or other rules come into play)
- PPP rules foresee that each PPP project should be confirmed by the Government (slows down the process)
- An exception foreseen in the Programme for Increasing Energy Efficiency of Public Buildings: no requirement for the Government to confirm each ESCO model modernisation project

Thanks!

Public Investment Development Agency www.vipa.lt

