

## **eu.bac Position on Energy Savings Performance Contracting (ESPC)**

The European Building Automation and Controls Association - eu.bac - representing the European home and building automation industry, fully supports an improvement in energy efficiency in buildings. Buildings are one of the EU's largest users of energy offering the largest single-sector potential for energy savings. Global energy consumption for buildings is expected to grow by 45% between 2002 and 2025.

- Buildings represent 40% of Europe's energy demand - one third of this demand comes from non- residential buildings
- Energy accounts for at least 25% of the total cost of building operations
- The largest cost-effective savings potential lies in the commercial building sector
- Improving energy efficiency in buildings will bring employment opportunities

**Due to the energy savings that would be achieved and the jobs that would be created, eu.bac calls on the Commission to continue to raise the importance of improving the energy efficiency of buildings.**

### **Energy End-Use and Services directive**

In accordance with the requirements of the energy end-use and services directive (EES directive - Directive 2006/32/EC), Member States were tasked with drafting the first of three national energy efficiency action plans which will outline how an overall national indicative energy savings target of 9 % will be achieved by 2015. The first of these action plans was expected in June 2007. The energy savings target could be met by way of energy services such as energy savings performance contracting and other energy efficiency improvement measures.

According to the EES directive, 'energy performance contracting' is 'a contractual arrangement between the beneficiary and the provider (normally an energy services company or ESCO) of an energy efficiency improvement measure, where investments in that measure are paid for in relation to a contractually agreed level of energy efficiency improvement.' In practical terms, an energy saving performance contract (ESPC) is a partnership between a customer and an energy services company that allows the customer to improve the energy efficiency of their facilities without any up-front capital costs or special loans. The ESCO guarantees that the improvements will generate sufficient savings to pay for the project over the term of the contract, while all additional cost savings gained after the contract ends accrue to the customer.

eu.bac therefore sees the EES directive and the consequential national energy efficiency action plans as useful tools opportunity to promote the uptake of energy efficient building controls technology and maintenance as well as an increase in the

use of energy savings performance contracting. So far, achieving this opportunity has been limited by the fact that not all national energy efficiency action plans have been submitted and of those that have, not all contain language to promote ESPCs.

The objective of any ESPC is to improve the energy efficiency of a client's facility/facilities. This enables the client to save energy. And guaranteed energy savings means guaranteed financial savings. When one takes into account that energy accounts for at least 25% of the total costs of building operations and that the largest cost-effective savings potential (30%) lies in the commercial buildings sector, a client is likely to save quite a hefty sum by opting for an ESPC.

**We urge the Commission to ensure that the national energy efficiency action plans derived from the EES directive promote an uptake of the use of energy savings performance contracting.**

### **EU Public Procurement Legislation**

A vital element in improving building energy efficiency performance is insuring the public procurement process operating in a Member State is responsive to the need of meeting targets on energy efficiency. It must also be able to deal with new possibilities for financing energy efficiency improvements in public buildings such as the ESPC tool. Current EU public procurement rules (Directive 2004/18/EC on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts) stipulate that contracts can be awarded either based on the "lowest price" or on the "most economically advantageous criteria", which can include environmental characteristics. ESPCs clearly fall under the second option. The EES directive also refers to the ESPC as an energy efficient public procurement measure.

**To ensure the success of ESPCs at national level, we urge the Commission to address any uncertainty or concerns that public authorities in the Member States may have with respect to ESPC and its compatibility with procurement rules.**

### **What more can be done by the EU to promote the use of ESPCs?**

eu.bac encourages the Commission to clearly communicate that the use of ESPCs is encouraged under the Energy Services Directive (Annex V) and can be recognized as effective energy savings tools under the national energy efficiency action plans. In particular, the European Commission's Competitiveness and Innovation Framework Programme (CIP) aims to encourage the competitiveness of European enterprises as well as promoting energy efficiency and should continue to:

- Explain how ESPC works and the savings it can generate.
- Explain that it is allowed under EU procurement rules and address areas where national procurement laws fail to be compatible with EU procurement rules.

**eu.bac is willing to work with the Commission and the CIP to promote the role of ESPCs in saving energy. We would also like to become involved in the future CIP projects (2007-2013) to promote ESPCs.**

## Background information - How does energy savings performance contracting work?

Performance contracting allows building owners to implement energy efficiency improvements without upfront capital investments. ESPCs function as follows:

- ◆ Energy Service Companies (ESCO's) finance, install and maintain new energy efficient equipment, (e.g. equipment that monitors and optimizes cooling and heating systems, lighting systems, blinds, fire and security systems, elevators etc.<sup>1</sup>
- ◆ Savings over the lifetime of the contract are guaranteed.
- ◆ The building owner (e.g. government in the case of public buildings) pays back the private sector investment with the savings from utility bills.
- ◆ By law, the building owner pays no more than it would have paid for utilities before the ESPC
- ◆ After the end of the ESPC, once the projects have been paid off by the savings, the building owner keeps all the savings.

### How is an ESPC financed?

ESPC is a comprehensive self-funded program - there are no capital costs. The equipment and technology installed by the appointed ESCO, as well as its maintenance, is paid for by guaranteed energy and operational savings.

The financing itself is tailored to the individual contract, with the logistics being handled by the ESCO. A bank is usually asked to strategize various cash-flow models on the basis of existing operating and capital budgets. State grants and utility rebates for energy efficiency improvements are also taken into account at this time.

### How is an ESPC set up?

A performance contract replaces all the solicitations and agreements of a conventional contract with **one single proposal**.

1. The process begins with a **preliminary evaluation of a facility's potential for efficiency** improvements by the energy service company (ESCO). If the potential seems promising, a **proposal** covering all engineering, construction and maintenance services is generated.
2. Once a customer is satisfied with the proposal, they award the contract to a **single ESCO**, who becomes accountable for all services and savings guarantees.
3. The selected ESCO performs a **detailed study of energy and operational efficiency opportunities** at the facility. The customer reviews the study and **approves a final list of efficiency improvements** to be made as part of the contract.
4. The ESCO prepares plans and specifications, which are then reviewed by the customer.

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<sup>1</sup> The average energy saving rate for non residential buildings (offices, lecture halls, education buildings, hospitals, hotels, Restaurants and trade service buildings) amounted 10 25% by using advanced SAC Systems (Ref: Pr EN 15232:2006).

5. After receiving notice to proceed, the ESCO implements the agreed-upon efficiency improvements and begins performing relevant maintenance and repairs, which continue for the duration of the contract. The customer monitors the day-to-day performance of the ESCO during construction, maintenance and repair for the duration of the contract.

#### **eu.bac and the eu.bac certificate mark**

The European Building Automation and Controls Association - eu.bac - representing the European home and building automation industry, fully supports an improvement in energy efficiency in buildings

The eu.bac Certification Mark assures users the conformity of products and systems as defined in European Directives, European (CEN TC 247) and World Standards (ISO TC 205). The registered eu.bac Cert Mark is a symbol that expresses approved high level of Energy Efficiency and Quality. eu.bac Cert Mark is the European Quality Label for products and systems in the Building Automation and Controls arena.

The Mark is granted for a 5-year period. The Certification Procedure requires periodic tests and factory inspection by third parties. To achieve this, eu.bac cooperates with the leading European Certification Bodies in the UK - Intertek, France - CSTB and Germany - WSPCert. The eu.bac empowered Certification Bodies operate in accordance with EN 45011 and are accredited by the International Accreditation Forum (IAF).

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