



Eurostat-EIB guidance on treatment of EPC in government accounts

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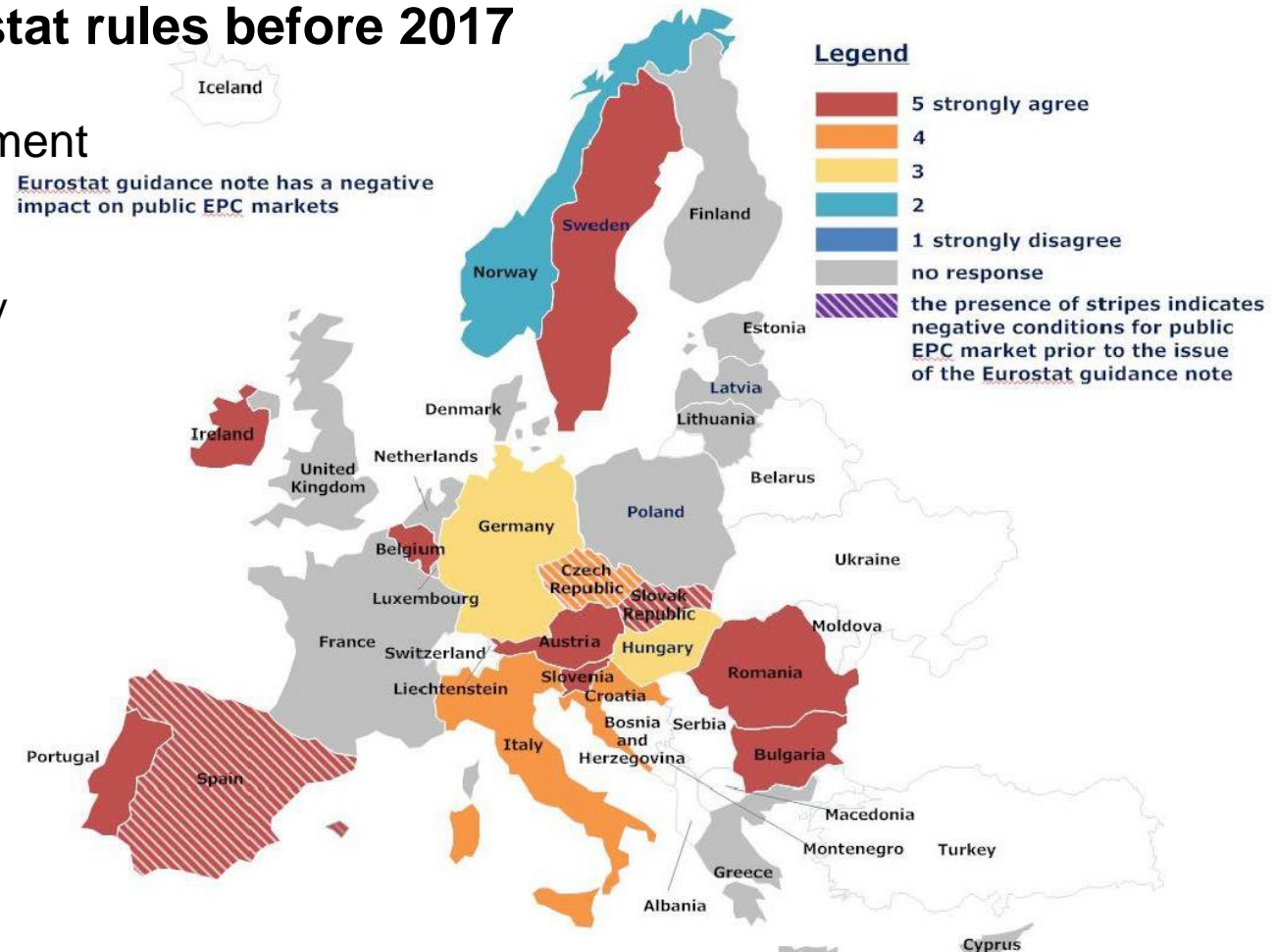


Why a statistical guide on EPC?



Market perspective on Eurostat rules before 2017

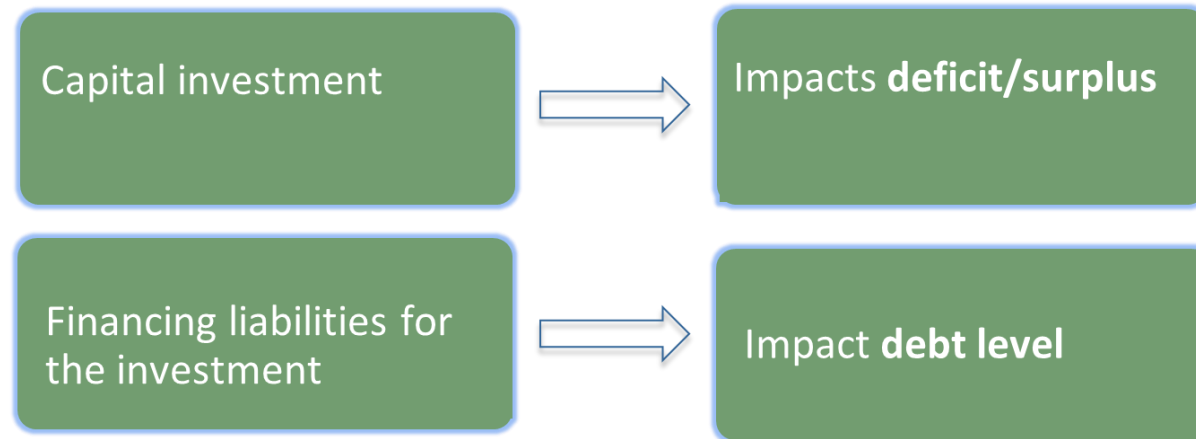
Previous ruling on statistical treatment was considered to have negative impact on EPC market (according to 2017 JRC report 'Energy Service Companies in the EU')



What do Eurostat's rules imply?



➤ If an asset is “on balance sheet” for government:

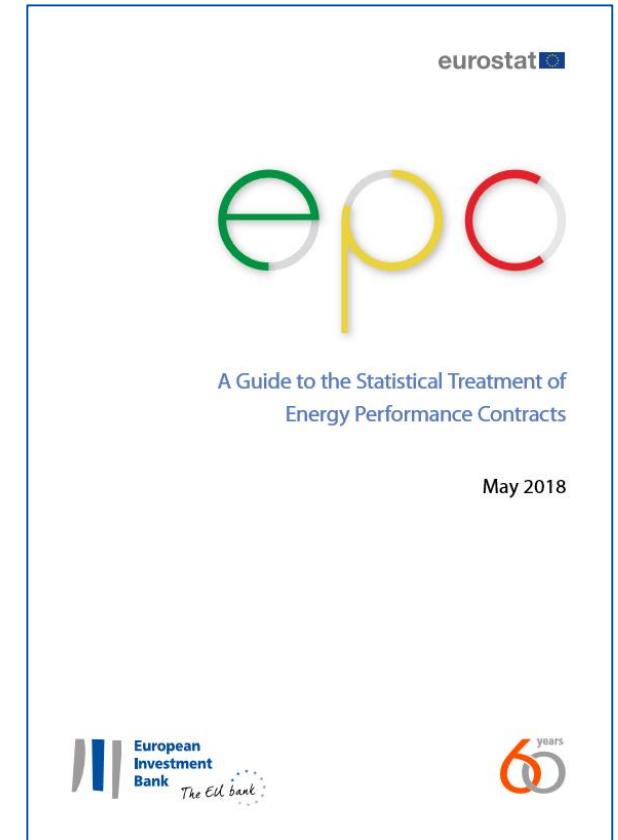


➤ If an asset is “**off balance sheet**” for government:
government only records regular payments for services

What does the Guide do?



- Translates general statistical rules and principles of “economic ownership” into **contractual terms and concepts**
- Endorsed as **official Eurostat guidance** and the reference point for Eurostat advice and decisions on EPCs
- Eurostat rules relate to **statistical treatment in government accounts** - not with accounting rules/practices and budgeting
- Does not **address value for money or bankability** considerations



<http://www.eib.org/infocentre/publications/all/guide-to-statistical-treatment-of-epc.htm>



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When does the Guide apply?



➤ Who is contracting?

✓ A “**government**” host (client) and “**non-government**” EPC provider (ESCO)

➤ What is the investment?

✓ Assets **reduce energy consumption** (can include some renewable energy supply)

➤ How long is the contract for?

✓ Minimum contract duration **8 years**

➤ Are services included?

✓ Assets are **maintained** by the EPC provider

➤ How is the investment financed?

✓ **Private finance** from the EPC provider



Themes covered by Guide



- | | |
|---|--|
| Theme 1 – Legal ownership and access rights | Theme 9 – Insurance |
| Theme 2 – Specification, design, construction and installation of the EPC assets | Theme 10 – Warranties and indemnities |
| Theme 3 – Maintenance and operation of the EPC assets | Theme 11 – Early termination of the EPC |
| Theme 4 – The Guaranteed Savings | Theme 12 – Compensation on early termination of the EPC |
| Theme 5 – The payment mechanism | Theme 13 – Expiry of the EPC |
| Theme 6 – Compensation, relief and force majeure events | Theme 14 – Financing arrangements |
| Theme 7 – Changes to the EPC | Theme 15 – Government influence |
| Theme 8 – Changes in law | Theme 16 – Miscellaneous provisions |



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How to use the Guide?



Concluding the assessment

Step 1: identify issues that have an influence on the statistical treatment

- No influential issues ⇒ **OFF BALANCE SHEET**
- ON BALANCE SHEET issues ⇒ **ON BALANCE SHEET**
- Influential (VERY HIGH/HIGH/MODERATE) issues ⇒ **TO STEP 2**

Step 2: analyse the significance of the issues identified

- **Project specific** analysis

Step 3: reaching a conclusion

- Summing up number and weighting of issues



How to use the Guide?



Concluding the assessment

Step 3: reaching a conclusion

- **Strong presumption of OFF BALANCE SHEET** treatment if:

	VERY HIGH	HIGH	MODERATE
Issues identified	≤ 1	0	≤ 2
	0	≤ 2	≤ 1
	0	≤ 1	≤ 4
	0	0	≤ 7

- If thresholds are not met, further analysis may be undertaken and will include assessing the **Authority's control of the asset**



Selected Themes from the Guide



Theme 4

Guaranteed savings

- Guaranteed **savings must exceed all government payments**
- Savings must be derived from a **reduction in energy consumption** (other energy related savings and revenues can also count)

Theme 5

Payment mechanism

- **Proportionality** between payment and savings
- EPC provider **fully liable** for savings shortfalls
- Excess **savings can be shared** (up to 1/3 for government)



Selected Themes from the Guide



Theme 14 Financing arrangements

- **Government financing** (grants, loans, guarantees) has an impact on balance sheet treatment:
 - $\geq 50\%$ → **ON BALANCE SHEET**
 - $< 50\%$ → **MODERATE, HIGH OR VERY HIGH impact**
- **EU financing** is neutral in assessing balance sheet assessment
- Is there are **forfeiting** arrangement in place?



EPC or PPP under Eurostat rules



EPC contracts may fall under Eurostat PPO rules, if

- if the amount of CAPEX in the refurbishment of existing asset represents $\geq 50\%$ of the value of the asset after completion of works
- and if EPC provider is remunerated on the basis of the availability of and/or demand
- If, however, this 50% threshold is met, and EPC provider is remunerated energy performance then the arrangement will be considered to be an EPC under Eurostat rules





financial instruments revolving capacity building
 added value **ERDF** funding agreement EU guidance
 governance **ESF** ex-ante assessment
 technical support seminars leverage financial intermediaries microfinance
 co-financing case studies
 investments **ESIF** fi-compass final recipients
 business plan thematic objectives
 advisory services **Thank you** loans **CF** equity
 guarantees banks life cycle combination of support
 private investors factsheets
 conferences **EMFF** investment strategy
 fund of funds managing authorities manuals