

# Investor Confidence Project (ICP) Europe

Standard for investors confidence

#invest4cities Brussels

Jorge Rodrigues de Almeida



How investors see energy efficiency?







A cartoon illustration of Homer Simpson and Bart Simpson sitting at a dining table. Homer is on the left, wearing a white shirt, looking towards Bart with a wide-eyed, open-mouthed expression. Bart is on the right, wearing a red shirt, looking back at Homer. The table has plates of food and glasses. In the background, there are red flowers in a vase. The text "YOUR IDEAS ARE INTRIGUING TO ME AND I WISH TO SUBSCRIBE TO YOUR NEWSLETTER" is overlaid in white, bold, sans-serif font across the middle of the image.


YOUR IDEAS ARE INTRIGUING TO  
ME AND I WISH TO  
SUBSCRIBE TO YOUR  
NEWSLETTER



# Build Bridges between Projects and Investors



# European Sustainable Finance



EUROPEAN COMMISSION

Brussels, 8.3.2018  
COM(2018) 97 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Action Plan: Financing Sustainable Growth

EN EN



EU TECHNICAL EXPERT GROUP ON SUSTAINABLE FINANCE

FINANCING A SUSTAINABLE EUROPEAN ECONOMY



**TAXONOMY**  
Technical Report

Taxonomy Technical Report  
June 2019



European Commission

## What is the European Green Deal?

December 2019  
#EUGreenDeal

The European Green Deal is about **improving the well-being of people**. Making Europe climate-neutral and protecting our natural habitat will be good for people, planet and economy. No one will be left behind.

**The EU will:**

-  Become climate-neutral by 2050
-  Protect human life, animals and plants, by cutting pollution
-  Help companies become world leaders in clean products and technologies
-  Help ensure a just and inclusive transition

*"The European Green Deal is our new growth strategy. It will help us cut emissions while creating jobs."*  
Ursula von der Leyen, President of the European Commission

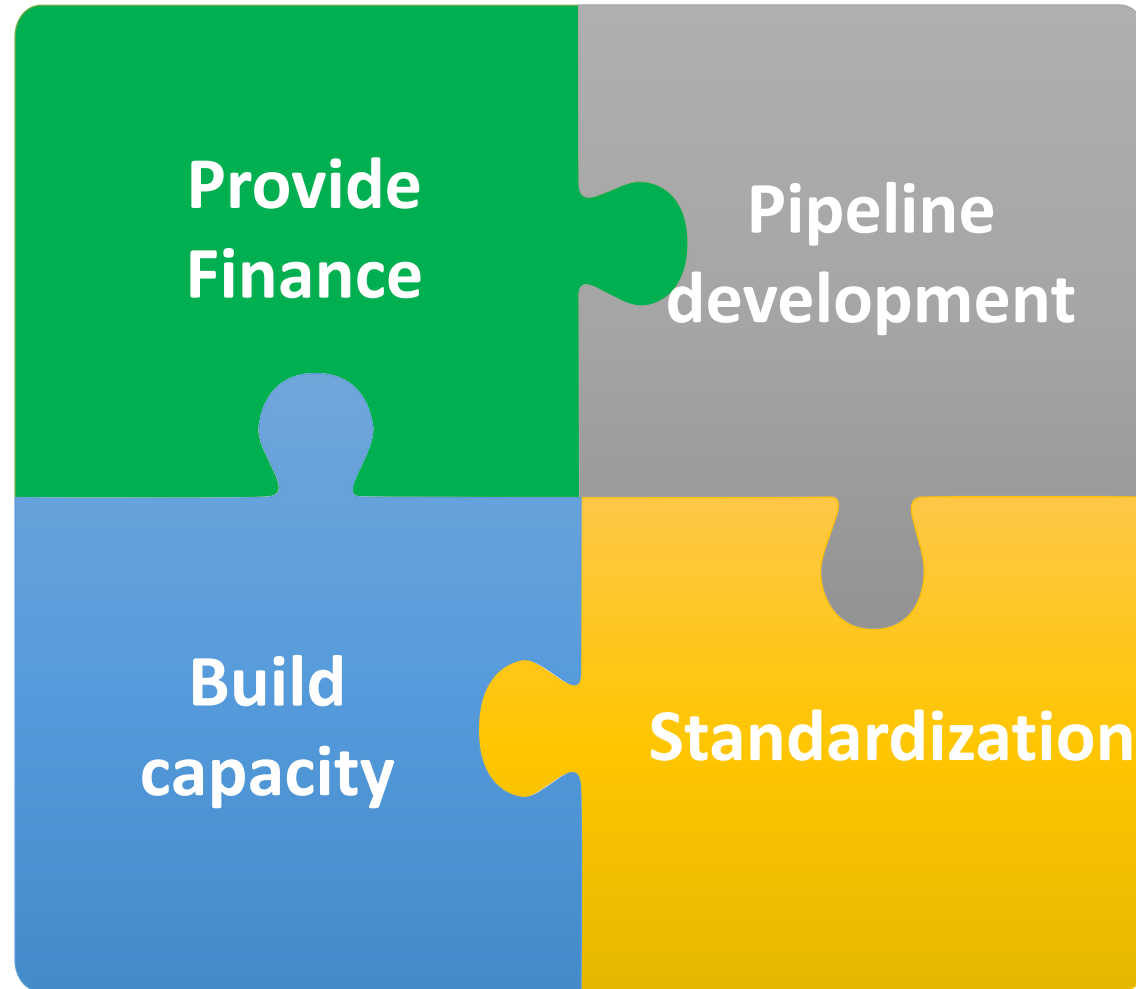
 *"We propose a green and inclusive transition to help improve people's well-being and secure a healthy planet for generations to come."*  
Frans Timmermans, Executive Vice-President of the European Commission

-  **93%** of Europeans see climate change as a serious problem
-  **93%** of Europeans have taken at least one action to tackle climate change
-  **79%** agree that taking action on climate change will lead to innovation

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# The energy efficiency puzzle



**Just providing finance is not enough!**

# The energy efficiency puzzle





**Factories need standardization**



Citi

HSBC

BARCLAYS

STATE STREET

**Banks are factories**

Lack of standardisation results in:



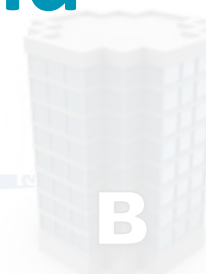
**Greater performance risk**

**Uncertainty limiting demand**

**Higher transaction costs**

**Difficult to build capacity**

**Difficult to aggregate**



# An international framework for reducing owner and investor risk, lowering due diligence costs, increasing certainty of savings achievement and enabling aggregation



Ensures transparency, consistency and trust-worthiness through  
**best practice and independent verification.**

# IREE™ is delivered prior to investment decision



**PROJECT DEVELOPMENT**  
Credentialed Project Developer develops and documents projects according to ICP Protocols.

**CERTIFICATION**  
Independent Credentialed Quality Assurance Provider reviews project for ICP compliance and certifies qualifying projects as Investor Ready Energy Efficiency™.

**INVESTMENT**  
Building owners and investors can make investment decisions with increased confidence based on predicted savings.

**PERFORMANCE**  
Building's energy performance is optimized and energy savings from retrofit are measured and verified according to ICP Protocols.



# What is the content of the one ICP Protocol?



Procedures

Documentation





# What is the benefits of the IREE certification?



The certification process consist of a ***due diligence*** to the project based on the protocols requirements.



The IREE certification is delivered by a **specialized and independent third party**;



Ensures transparency, consistency and trust-worthiness through **best practice and independent verification**.

# ICP Investor Network



# What project types is IREE™ designed for?



# Investor Confidence Project (ICP) Europe

## 2013

- Started in the US and become a “crazy” idea to bring it to Europe...



## 2015

- The European Commission supported a European consortium (ICPEU) to implement ICP in Europe (based on the structure developed in the US).



## 2017

- ICP is owned by Green Business Certification Inc. (GBCI) reaching a global scale.
- The European Commission signed a second Grant Agreement (I3CP) to adapt ICP into Industry, Street Lighting and District Energy.



## 2020

- Not anymore a “crazy” idea but a successful project!



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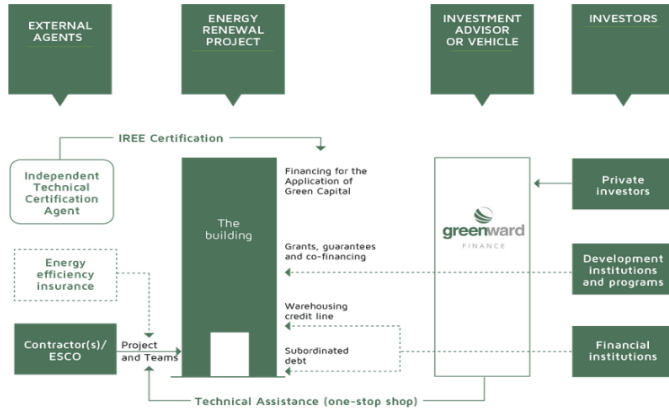
***“HSB does provide improved terms for energy efficiency projects that are ICP credentialed. The Asset Performance Insurance element of our cover (covering a shortfall in achieved savings) incorporates a “confidence factor” within the rating model. The highest confidence level is applicable to ICP credentialed projects. This contracts the performance parameters and reduces the premium. The exact reduction in premium depends on the nature of the project to start with.”***

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**Paul Cullum** - Alternative Distribution Manager, HSB Engineering Insurance Limited

# Investor Confidence Project (ICP) Europe

Project financing scheme through the EEIF:



**Greenward Finance** is an investment entity affiliated with the Investor Confidence Project Europe, such that all its investments are governed by the international ICP protocol.

**Greenward** forms part of the MEETS™ (Metered Energy Efficiency Transaction Structure), a pioneering organization in the structuring of financing for efficiency-as-a-service projects through PPAs (Long-term Energy Supply Contracts).

Greenw BANK™ invest

## First European industry project certified by the Investor Confidence Project

January 16, 2019 By GRESB

Austrian community catering supplier GOURMET leads the way in energy efficiency with the first European industry project certified by the Investor Confidence Project

WIENNA/LONDON, January 2019. The Investor Confidence Project's innovative Investor Ready Energy Efficiency™ Certification has been awarded to a waste heat utilisation project at GMS GOURMET GmbH. The project saves natural gas and electricity by using the waste heat of two fast cooling plants to support the heating demand of three ventilation systems at GOURMET's production site in Vienna.

"Managing Director Hannes Hasibar emphasizes GOURMET's leadership when it comes to energy efficiency and innovation: 'As a responsible company we treat the earth's natural resources with care and continuously work on improving efficiency and standards.'"



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EU law

Recomendação (UE) 2019/786 da Comissão, de 8 de maio de 2019, relativa à renovação dos edifícios [notificada com o número C(2019) 3352] (Texto relevante para efeitos do EEE.)

Publication details Related publications (13)

Published: 2019-05-08

Corporate author(s): Directorate-General for Energy (European Commission), European Commission

Subject: air conditioning, energy consumption, energy efficiency, energy saving, EU energy policy, greenhouse gas, heating, improvement of housing, reduction of gas emissions, renewable energy

CELEX : 32019H0786

OJ : JOL\_2019\_127\_R\_0006

IMMC : C(2019)3352/1017189

### 2.7.8.2. Reduzir o risco percebido das operações de eficiência energética

- A normalização das operações de eficiência energética aumenta a confiança dos investidores. Há a possibilidade de aplicar protocolos para reduzir os riscos de desempenho e é possível organizar formação nos domínios da aplicação de protocolos e da certificação de projetos. O projeto Investor Confidence Project (ICP) Europe (121), apoiado por dois projetos Horizonte 2020 (ICPEU e I3CP), desenvolve protocolos normalizados e ferramentas associadas, tais como especificações de desenvolvimento de projetos. Através da sua rede de partes interessadas, proporciona assistência técnica aos promotores de projetos para obterem a certificação «Investor Ready Energy Efficiency» (eficiência energética atraente para investidores, ou IREE) para os seus projetos e programas. O projeto também trabalha com instituições financeiras para as ajudar a incorporar a IREE nos seus processos de investimento e concessão de crédito.
- O projeto «Standardisation and Communication of Sustainable Energy Asset Evaluation Framework» (SEAF) (122) desenvolveu

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Directorate-General for Energy (European Commission); European Commission Subject: adaptation to climate change, energy consumption, energy efficiency, energy research, Estonia, EU energy policy, greenhouse gas, reduction of gas emissions, regional cooperation, renewable energy

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Build bridges between projects and investors



# Bridges between projects and investors







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European Innovation Partnership  
on Smart Cities and Communities



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Brussels, Belgium

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**LOCATION**  
CROWNE PLAZA HOTEL, Rue Gineste 3, 1210  
Brussels

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Financial quality criteria to facilitate communication between financial institutions, ESCOs and clients

Klemens Leutgöb, e7 Energie Markt Analyse GmbH

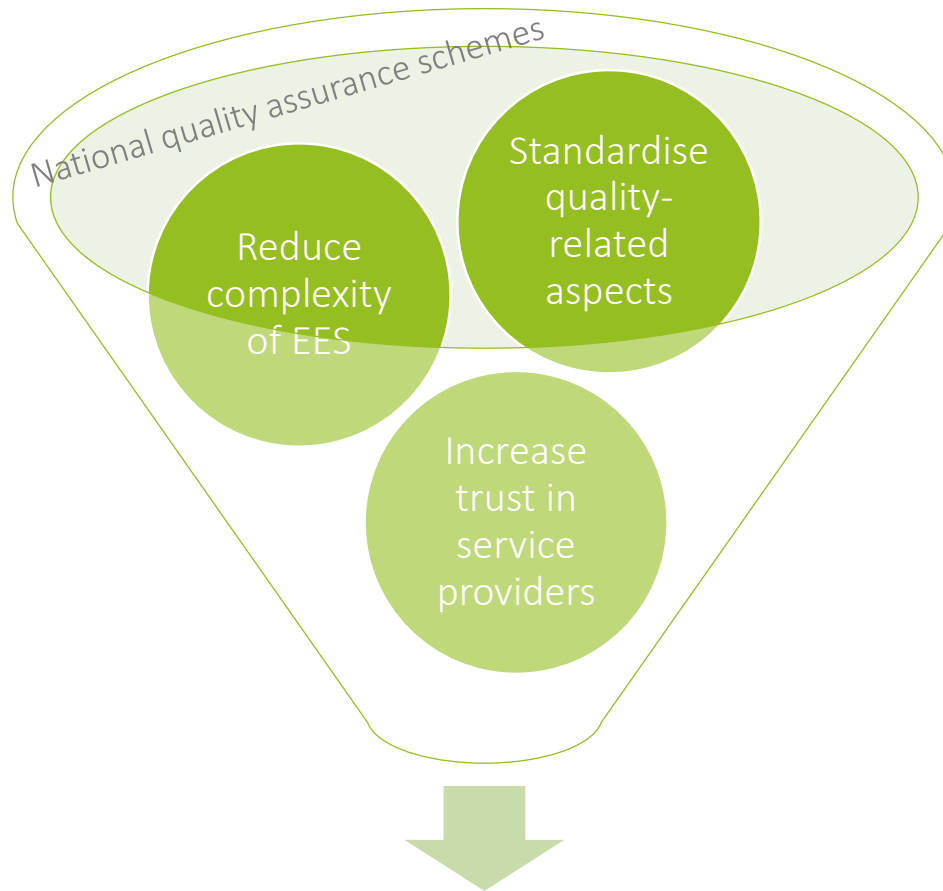
18/02/2020

This project receives funding from the European Union's Horizon 2020 research and innovation programme.





# Objectives of QualitEE project



Increase investment in energy efficiency services (EES) in the building sector



# Quality assurance schemes to increase trust and reduce complexity of EES





# Quality Criteria Structure

Quality Criterion	Proof	Assessment	Comment
<p>Which specific aspect of the energy efficiency service is being assessed?</p> <p>What is the ideal requirement for this specific aspect?</p>	<p>What evidence should the assessor look for to assess the criterion.</p>	<p>How should the assessor decide whether the evidence collected demonstrates the criterion has been achieved?</p> <p>This could be pass/fail presence of the evidence or there may be a set of quality statements to assess against in a rating scale.</p>	<p>Supporting comments to assist the assessor in coming to their conclusion.</p>



# Quality Assurance Schemes

With a public sponsor  
(e.g. a governmental body, a ministry)

- ✔ Czech Republic
- ✔ Greece
- ✔ Latvia
- ✔ Slovenia

With a private sponsor  
(e.g. an industry association)

- ✔ Austria
- ✔ Belgium
- ✔ Bulgaria
- ✔ Spain
- ✔ United Kingdom

## Schemes for certification of

- ✔ Projects
- ✔ Companies (ESCO providers)

- ✔ Management systems
- ✔ Auditors
- ✔ Project execution
- ✔ Financing



# Financial quality criteria for EES

- ✔ Establishment of a common understanding between service providers, clients and financial institutions for the assessment of the bankability of energy efficiency projects
  - What defines quality of an EES project from a financing point of view?
  - Which information is important at the interfaces between project sponsors and FIs
- ✔ Interlinkage with, but also distinction from Technical Quality Criteria
  - FIs do not need to know all technical details of a project
  - FIs need to understand how values are generated and secured in an EES project





# Financing different types of EEI investments

PROJECT

Boiler replacement

Building renovation

Complex EE project



Equity

Equity

Equity

+

+

+

Debt (Leasing)

Debt (Mortgage)

Debt (?)

FORM OF CAPITALS

- Leasing and Mortgage are highly standardised financial products.
- Clear collateral and securities
- No execution

- Low level of standardisation
- What is the financial product? What sort of debt capital?
- Leasing? Project financing like for real estate development and infrastructural projects?



# Financing Instruments and challenges of EES projects

- ✔ **Credit financing:** generally used, but limits of creditworthiness on the side of EES provider as well as on the side of EES client
  - Deterioration of balance-sheet-based credit ratios
  - Competition of investments
- ✔ **Leasing financing:** applicable only for parts of the project
  - leasable goods: legal framework for transfer of ownership applies
  - EES are brain-driven: Hardware is sometimes only a smaller part of the total investment
- ✔ **Project financing:** Practically impossible, EES projects are too small and project bundling is difficult in practice
- ✔ **Sale of claims:** sometimes used, important instrument to refinance and collateralise EES investments in selected countries (e.g. CZ, A), but projects need to be prepared accordingly; different types of application (cession, forfaiting)



# Financial Quality Criteria

- ✔ Selection of financial quality criteria (FQC)
  - Is the cash flow generated through reliable energy savings? (How big is the performance risk?)
  - What are the risks associated with potential failure or bankruptcy of EES provider?
  - What are the risks associated with potential failure or bankruptcy of the client of the EES project?
  - To which degree can the technical equipment be used for collateralisation?
  - What role play non-energy benefits for assessing the bankability of EES projects?
- ✔ FQC 1: Quality of cash flow prediction
- ✔ FQC 2: Incentive structure for cash flow generation
- ✔ FQC 3: Exploitation of cash flows
- ✔ FQC 4: Value and exploitation of assets (technical equipment)
- ✔ FQC 5: Non-energy benefits of EES projects



# FQC 1 Quality of cash flow prediction

## ✓ Cash flows are the result of energy savings

- main source for repayment
- energy savings cannot be directly measured but only calculated
- energy efficiency  $\neq$  energy savings
- definition of baseline: What would have happened without the EES action?
- measurement and verification (M&V) concept

## ✓ Assessment Criteria

- Availability of M&V plan
  - Specification of standard used
  - Timing of M&V activities
  - Responsible stakeholders
- Clear definition of baseline
- Scenarios for worst, real and best case
- Application of best available technology



# FQC 2 Incentive structure for cash flow generation

- ✓ Clear incentives for EES provider as well as for EES client to achieve forecasted cash flows **reduce the risk of project failure**
  - contractual stipulation regarding the savings guarantee
  - co-operation of the EES provider and client is necessary
  - well-balanced risk sharing
  
- ✓ **Assessment Criteria**
  - Transparency of risk sharing approach
  - Dependency of remuneration of EES provider on adherence with savings guarantee
  - Incentivising stipulations at the client's side
    - definition of collaborative role of client
  - Safeguarding cash flows in case of equipment failure (e.g. through EE insurance products)



# FQC 3 Exploitation of cash flows

- ☑ Ensuring payments for the case of economic difficulties of contracting parties or changes in legal status
  - bankruptcy of EES client or EES provider
  - change of ownership of the facility where EES is implemented
  - ensuring that project implementation is continued
  - prior access to the cash flows for FIs
  
- ☑ Assessment Criteria
  - Preventing approach regarding exit-strategies
  - Replacement of EE provider
  - Right of EES provider to refinance through cession and forfeiting
  - Limiting stipulation regarding termination of the contract by EES client
  - Cash flow exploitation in case of sale of facility



# FQC 4 Value and exploitation of assets

✓ Parts of the technical equipment can be used as collateral, but conditions need to be fulfilled:

- technical exploitation: assets can be removed
- economic exploitation: assets can be sold
- legal exploitation: ownership of remaining assets

✓ **Assessment Criteria**

- Value of removable parts of technical equipment is defined in the project documentation
- Technical equipment can be used for different processes and branches
- Contract defines ownership



# FQC 5 Non-energy benefits of EES project

- ✔ Non-energy benefits also known as multiple-benefits
- ✔ Benefits from the client's perspective
  - increased work productivity
  - reduced outages of production
  - reduced dependency of energy tariffs
  - sales/rental premium
  - societal benefits
  - ...
- ✔ Assessment Criteria
  - List of non-energy benefits is available and classified
  - Quantification and monetarisation of non-energy benefits





# Context and Application of FQC

- ✔ Project sponsors (EES provider and/or EES client) as main target group of the FQC
  - instrument for pre-assessment of bankability of EES projects
  - Presentation of project characteristics that are relevant for FIs in a transparent way
- ✔ Financial institutions
  - FIs have their own proven and unalterable routines for project appraisal (and do not need the FQC)
  - But they profit from a transparent and standardised presentation of the relevant items → reduction of transaction cost
  - Reduction of due diligence cost for refinancing institutions

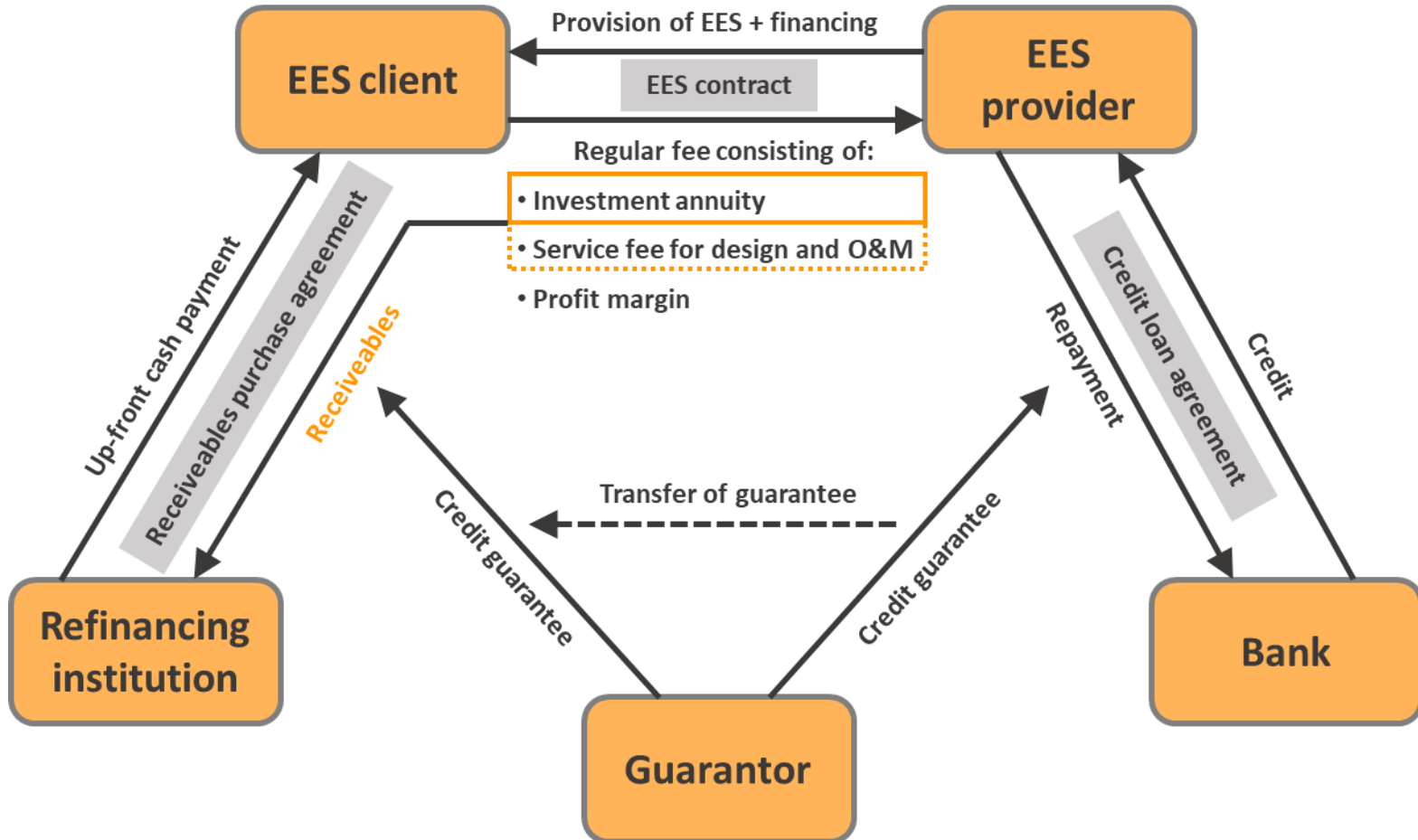


# Refinancing cycle as driver for EES market volumes

- ✔ Refinancing
  - In general, replacement of an existing debt obligation with another debt obligation under different terms
  - In particular for EES, approach where an EES provider sells and a refinancing institution acquires receivables to be paid by an EES client.
- ✔ Different forms in practice
  - Cession
  - Factoring
  - Forfaiting
- ✔ In selected countries and under certain conditions successfully applied, but generally opaque market
- ✔ Enhancement of refinancing schemes in EES business requires
  - Admissibility in EES contracts
  - Easy and cost-efficient procedures
  - Calculable risks for involved stakeholders



# Generic overview on relationships in refinancing schemes





# Summary and Conclusions

- ✔ Financing energy efficiency projects is a key to achieving the energy and climate goals
- ✔ Financing instruments are available, but **unevenly accepted in the different countries**
- ✔ **Financing is easy as long as clients are creditworthy** (depending on credit-ratio based on balance sheet)
- ✔ **Off-balance sheet financing is usually difficult** for EES projects
  - complex and small, therefore unfavourable ratio between transaction cost and perceived project revenue
  - high perceived risks as cash flows come from savings and not from sales on the market
- ✔ **Reliable and verifiable criteria** are useful – mainly for easy and standardised refinancing of EES investments
  - This allows for cleaning up balance sheets of project sponsors as well as for bundling of smaller projects



# Partners





Thank you

Klemens Leutgöb, e7 Energie Markt Analyse GmbH



[www.qualitee.eu](http://www.qualitee.eu)

1<sup>st</sup> June 2017 to 30<sup>th</sup> June 2020



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