SALE OF RECEIVABLES FROM ENERGY PERFORMANCE CONTRACTS IN CZECHIA

BEST PRACTICE EXAMPLE

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REFINE

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CONTENTS

ENERGY PERFORMANCE CONTRACTING (EPC)

- EPC provider carries out a **comprehensive energy efficiency service package:**
  - design, implementation of energy efficiency improvement measures, operation & maintenance, (pre-) financing, user motivation, etc.
- The EPC provider assumes the contractually agreed performance risks of the project throughout the duration of the EPC contract.
  - These include the risks of not achieving contractually agreed savings as well as design risks, implementation risks and risks related to the operation of installed measures.
  - If an EPC project **fails to achieve performance** specified in the contract, the EPC provider is obligated by the contract with the client to **compensate savings shortfalls** that occurred over the life of the contract.
- Savings are determined by a **Measurement and Verification** (M&V) report using appropriate methodology (such as IPMVP)

CZECH ENERGY PERFORMANCE CONTRACTING MARKET

- **The Czech EPC market** ranks among the most advanced in Europe, not so much in quantity, but in terms of the high quality of projects, standardisation and availability of financing
- EPCs between 1994 – 2021:
  - 270 EPC projects
  - 1250 sites
  - EUR 170 million invested
  - EUR 200 million saved in electricity, gas, heat, water and other operating costs
- Typical **EPCs**
  - implementation of technology EEI measures in the field of building technologies, equipment etc.
  - payback of EEI measures < 10 years (projects without subsidies)
  - contract duration 8– 12 years
  - energy management

CZECH EPC MARKET BARRIERS

- Administrative barriers
- Public institutions perceive project preparation as too demanding
- Lack of sufficient government support and trust in energy service providers

- NOT **financial barriers**, as obtaining “viable” finance was seen as “easy” by the vast majority (91%) of Czech providers and facilitators

- *Source: QualitEE project (Szomolányiová 2018)*

SALE OF RECEIVABLES FROM EPCs IN CZECHIA

- **receivables purchase agreement** that allow an EPC provider to sell off expected receivables from its client **without recourse** to the EPC provider => the seller of the receivables is not liable for a client's non-payment.
- arranged exclusively between EPC provider and bank based on well-established and standardised contractual arrangements
- Advantages:
  - the assets disappear from the balance sheet of EPC provider, enabling financing new projects
  - financial institution now assumes the credit risk of EPC client

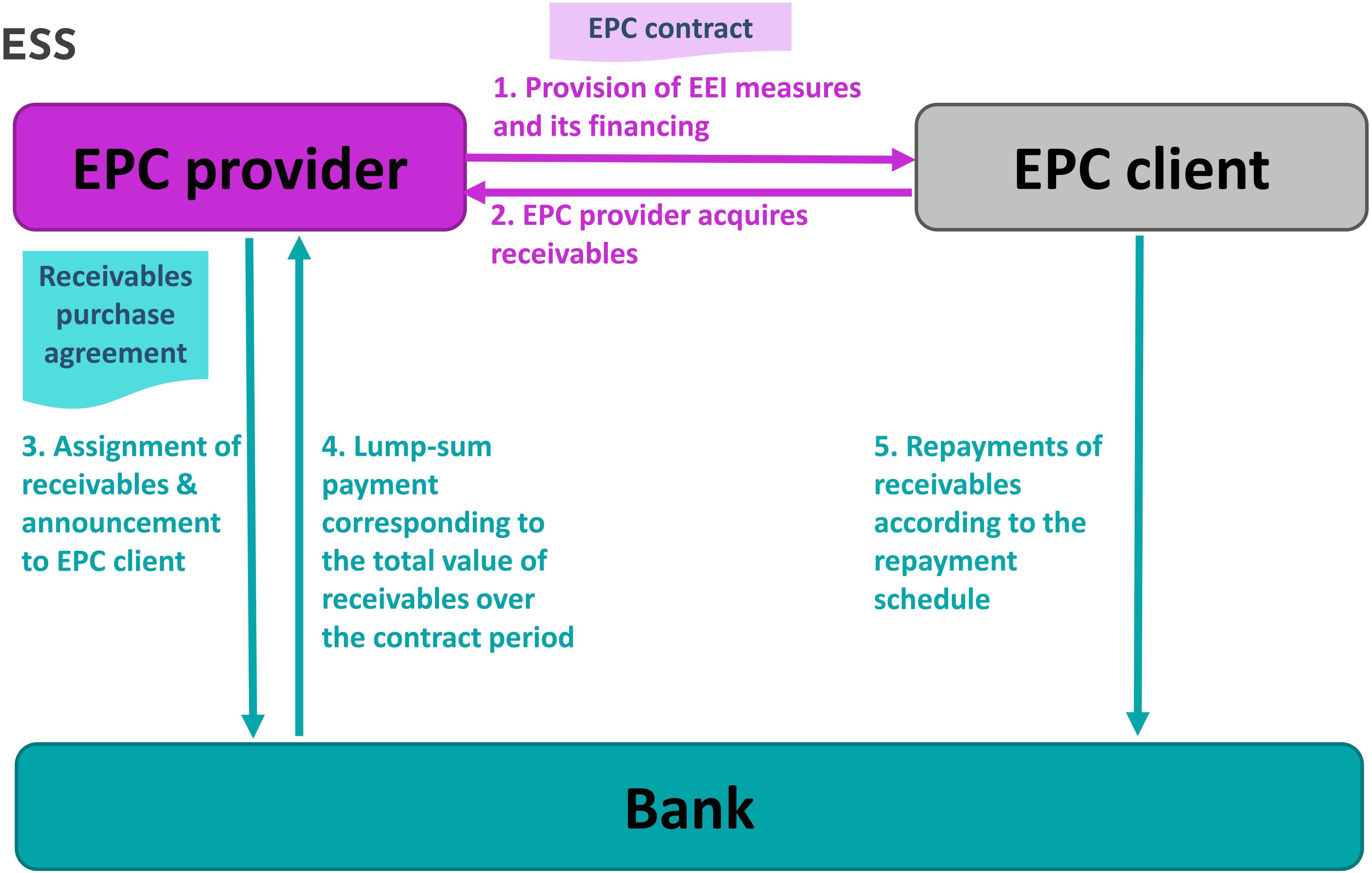
SALE OF RECEIVABLES FROM EPCs IN CZECHIA

- **Private banks**: Československá obchodní banka, a. s. (ČSOB) and Factoring of Komerční banka (KB).
- **Providers**
  - experienced privately owned EPC providers
- **Client sector**
  - mostly public clients (government, regions, municipalities)
  - private clients with high creditworthiness

SALE OF RECEIVABLES - FIRST STEPS

- **The approval of sale of receivables**
  - in majority of cases negotiated with the EPC client in advance
  - usually incorporated in the EPC contract (but law requires only to inform the client)
- **Agreement on future sale of receivables** between EPC provider & bank
  - usually signed before the procurement procedure begins
  - all details of the financing agreement are arranged exclusively between the EPC provider and bank
  - bank offers a fixed discount rate, which is reflected in the EPC contract
- **EPC provider concludes an EPC contract with EPC client**
  - EEI technology measures
  - service component

PROCESS


EPC contract
1. Provision of EEI measures and its financing
EPC provider
EPC client
2. EPC provider acquires receivables
Receivables purchase agreement
3. Assignment of receivables & announcement to EPC client
4. Lump-sum payment corresponding to the total value of receivables over the contract period
5. Repayments of receivables according to the repayment schedule
Bank

SALE OF RECEIVABLES PROCESS

- The EEI technology **measures are implemented** according to the EPC contract
  - EPC client signs a handover report
- 2. The EPC provider acquires receivables
  - The EPC provider issues an **invoice billing the client** for the installation of equipment (consisting of costs of design, equipment, installation and financing).
  - The EPC **client signs the invoice** confirming its liability to repay the invoiced amount (final price) in stipulated instalments over the whole contract period.
- 3. Receivables related to the financing of the EEI measures are assigned to the bank based on the receivables purchase agreement with the EPC provider
- 4. The bank sends to the EPC provider the **value of the receivables** after **deducting the discount** and fee agreed in advance
- 5. The EPC client sends **regular payment instalments to the bank** over the contract duration according to the repayment schedule

COSTS OF REFINANCING

- Costs mainly equal **discount interest**, which is the sum of
  - the **basic market rate** corresponding to the length and frequency of repayment of the receivable
  - + the **margin of the bank** reflecting the creditworthiness of the EPC client
    - for example: if CSOB purchases receivables from EPC project where the EPC client is a municipality: the margin included in the discount rate for repayment over a period of 10 years will be between 1% p.a. and 1.5% p.a.

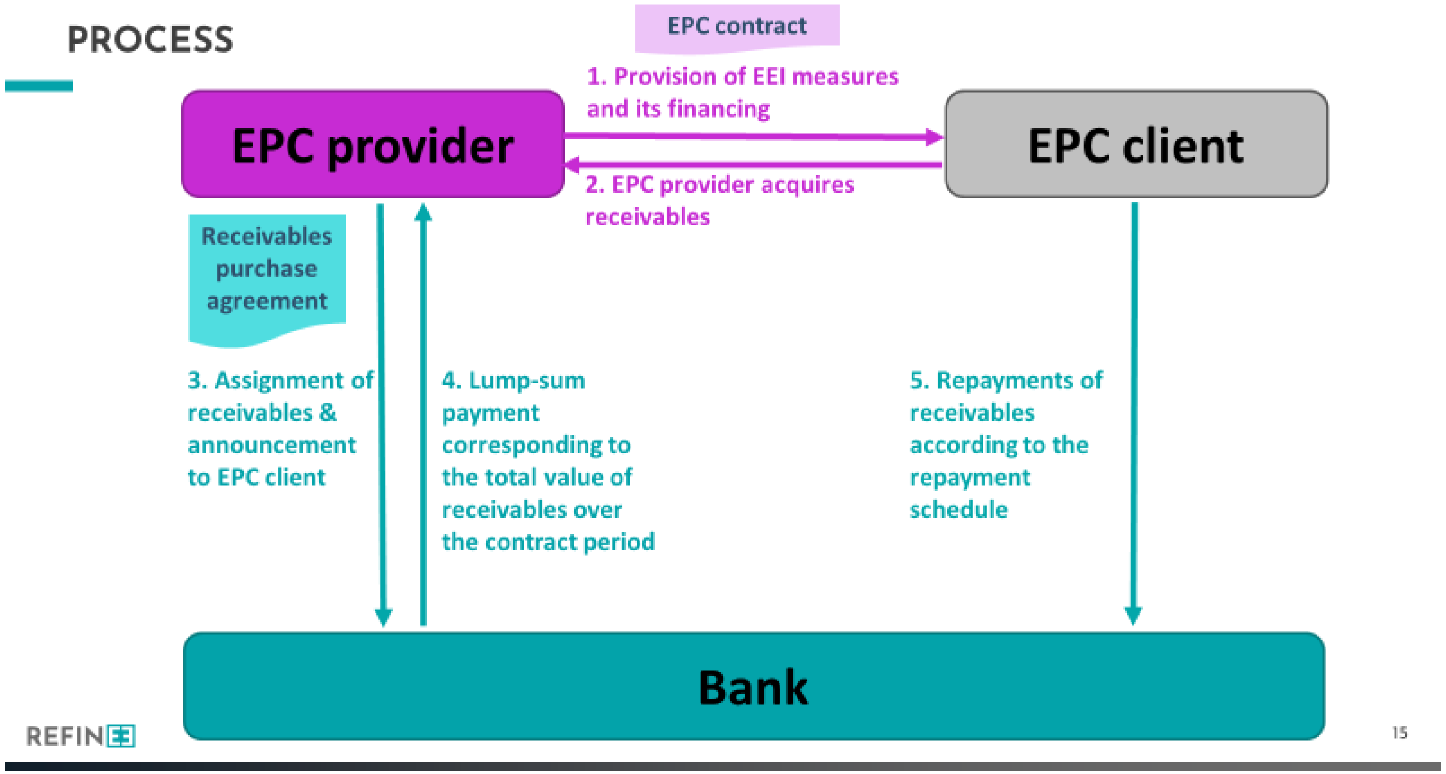
- the EPC provider also pays a **fee for the assignment of receivables** or processing of relevant contracts (in ČSOB < EUR 800).

PROJECT RISKS AFTER THE RECEIVABLES ARE SOLD

- By selling receivables, the risks associated with the EPC project are divided into technical and financial risks:
  - while technical risks remain with the EPC provider
  - credit risk is transferred to the bank
- **The bank** assumes the **risk of the client's bankruptcy only**
- the EPC project is implemented according to the original EPC contract (including the guarantees and liabilities of the provider)
- **All other risks remain with the EPC provider:**
  - The provider assumes the contractually agreed performance risks of the project throughout the duration of the EPC contract:
    - the risks of not achieving contractually agreed savings
      - If an EPC project fails to achieve the performance specified in the contract, the EPC provider is contractually obliged to compensate savings shortfalls that occurred over the life of the contract
    - design risks
    - implementation risks
    - risks related to the operation of installed measures.

SALE OF RECEIVABLES IN AUSTRIA AND BELGIUM

- **Belgium:** Large Belfius bank and Wattson (SME EES provider)
- **Austria:** major EES provider (Siemens Building Technologies – SBT) and Siemens financial services
- more details are available in Case Studies on Existing Refinancing Instruments for Energy Efficiency Services at https://refineproject.eu/



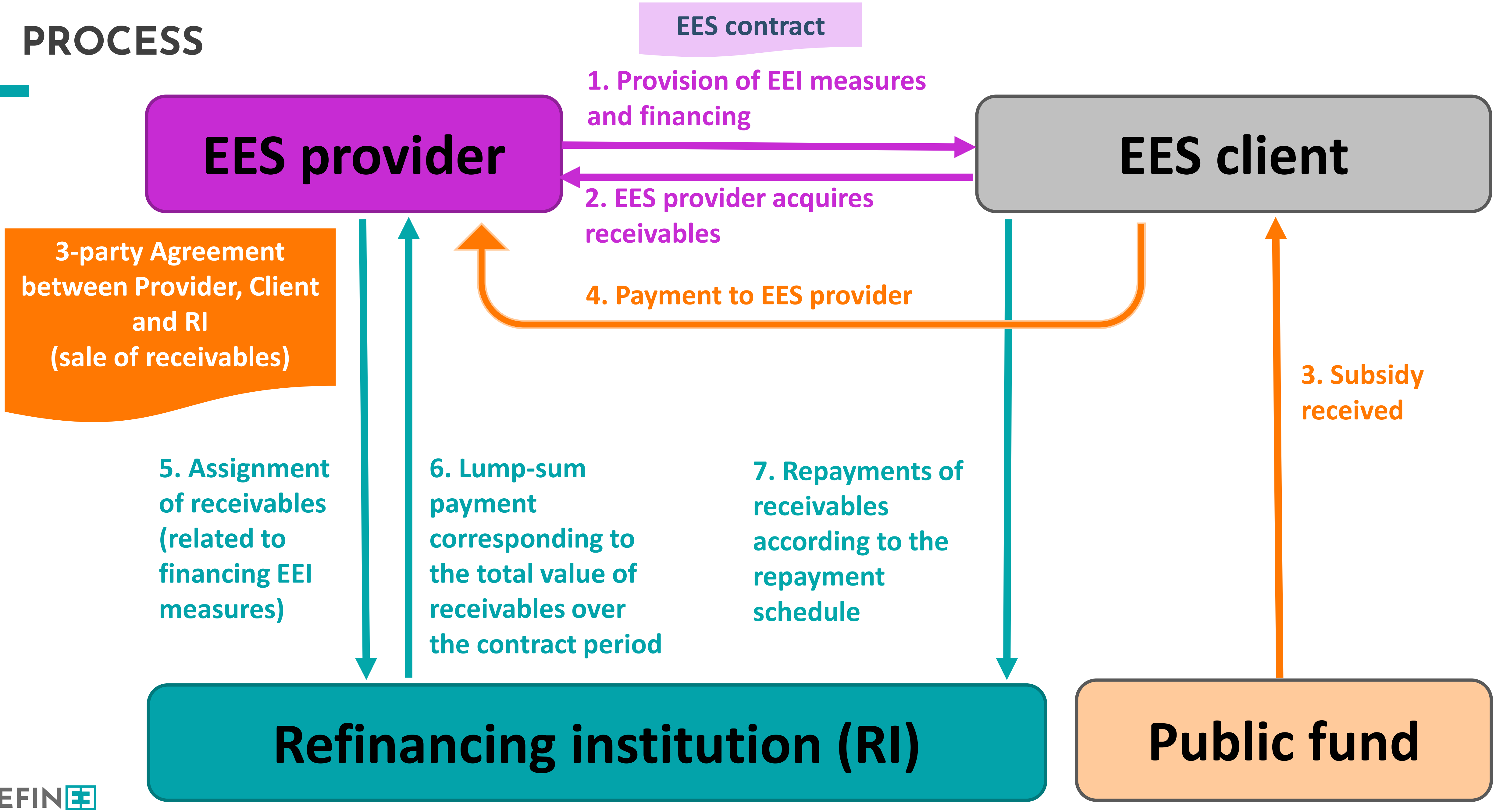
COMPARISON WITH SALE OF RECEIVABLES IN AUSTRIA AND BELGIUM

- usually providers with whom refinancing institution has had a good experience (CZ, BE) or even with close relationship to refinancing (AT)
- mostly public sector (government, regions, municipalities), rarely private sector (only CZ, AT)
- sale of receivables without recourse to EPC provider
- only in AT – refinancing institution holds title on equipment (asset-based collateralization of receivable)
- **Wide use (CZ) vs little use (AT, BE)**
  - Potential – Czech banks offered purchasing receivables from projects implemented by Czech ESCOs in other countries

SALE OF RECEIVABLES FOR COMPREHENSIVE RENOVATIONS IN GOVERNMENTAL BUILDINGS IN THE CZECH REPUBLIC

- **Comprehensive building renovations combining EPC with subsidies:**
  - co-ordinated implementation of both
    - building envelope measures (including insulation and window/door replacement) financed mostly with **subsidies**, but also partially using **EPC model**
    - technology measures, including interventions on heating, ventilating, and air conditioning (HVAC) systems financed by **subsidies** and **energy cost savings using EPC model**

PROCESS


EES contract
1. Provision of EEI measures and financing
EES provider
EES client
2. EES provider acquires receivables
3-party Agreement between Provider, Client and RI (sale of receivables)
4. Payment to EES provider
3. Subsidy received
5. Assignment of receivables (related to financing EEI measures)
6. Lump-sum payment corresponding to the total value of receivables over the contract period
7. Repayments of receivables according to the repayment schedule
Refinancing institution (RI)
Public fund

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Thank you

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