

Energy efficiency in residential buildings in France: Energy Performance Contracting to boost investments

The so-called European Fund for Strategic Investment (EFSI) should unlock additional investment of at least EUR 315 billion over a three year period (2015-2017). One of the projects benefiting from the EU financing is a program that aims to promote energy efficiency in the housing stock through the funding of certain regional/local initiatives supporting energy renovation of private residential buildings in France. This project could be a blueprint for the greater use of renewable energy and energy efficiency measures and thus the reduction of energy consumption and greenhouse gas emissions and it could also lead the way for future small-scale projects financed by EFSI.

What is European Fund for Strategic Investment (EFSI)?

The European Fund for Strategic Investments, launched jointly by the EIB Group - European Investment Bank and European Investment Fund - and the European Commission, is part of an initiative to help mobilizing private investments. This "Investment Plan for Europe" aims at improving the investment environment, at making sure investments reach the real economy (e.g. via the creation of the European Investment Project Portal and by increasing assistance to project promoters through the European Investment Advisory Hub) and to trigger additional investment of at least EUR 315 billion over a three year period (2015-2017). The EUR 315 billion investment target is supposed to be accomplished by financing provided by the EIB to projects carried out by private or public investors and based on a guarantee of EUR 16 billion from the EU budget, complemented by a EUR 5 billion allocation of the EIB's own resources. The EIB should provide funding for those economically viable projects which have a higher risk profile than ordinary EIB activities. It will focus on various sectors, including:

- Digital, transport and energy infrastructure;
- Education, research, development and innovation;
- Expansion of renewable energy and resource efficiency;
- Support for smaller businesses and midcap companies.

Energy efficiency in residential buildings in France- project description:

The overall project is a programme loan that will provide financing for different sub-projects. As of today, there are two sub-projects:

- SEM (Société d'Economie Mixte) Energies Posit-IF Ile-de-France;
- SPEE (Service Public de l'Efficacité Énergétique) en Picardie.

The programme loan will mainly support the thermal refurbishment of residential building: it is supposed to increase the energy efficiency of 40,000 flats and houses in France by improving their insulation as well as renovating the heating and distribution systems, including ventilation systems. The works may also include the use of renewable energies (like small scale wood-fired boilers, solar thermal collectors or roof-based solar photovoltaic installations).

By supporting projects aiming at reducing energy consumption and replacing fossil energy by renewables, the project will have positive environmental and climate change mitigation impacts, including reducing air pollution and GHG emissions.

This project is expected to create 6000 jobs during the construction phase, and in the long term it will save the energy consumption roughly the equivalent of 10,000 households.

This EFSI financing will enable French home-owners to access long-term loans and to benefit from technical and administrative assistance to retrofit their homes to make them more energy efficient.

According to the Commission, up to EUR 400 million will be provided by EIB and the total investment cost expected is EUR 800 million.

Sub-projects financed under the Programme Loan:

1) SPEE (Service Public de l'Efficacité Énergétique) en Picardie:

Promoter: Régie régionale du service public de l'efficacité énergétique

Location: Region Picardie

Type of financing: Investment loan

EFSI financing: EUR 23.5 million

Total investment expected: EUR 58 million

Status of the project: Signed the 07/12/2015

This sub-project aims at supporting the thermal renovation of residential buildings in the Picardie region. The project is expected to lead up to a 75% decrease of the overall energy consumption of the buildings. The works will improve the insulation of the buildings as well as the heat generation, distribution and ventilation systems. The use of renewable energies may be included in the works (small scale wood-fired boilers or solar thermal collectors).

2) SEM (Société d'Economie Mixte) Energies Posit-IF Ile de France:

Promoter: SEM (Société d'Economie Mixte) Energies Posit'if

Location: Région Ile-de-France

Type of financing: Investment loan

EFSI financing: EUR 100 million

Total investment expected: EUR 200 million

Status of the project: Signed the 07/12/2015

This sub-project aims at supporting the renovation of condominium buildings in the Ile-de-France region to make them more energy efficient. The works will improve the insulation of the buildings and windows with thermal insulation and improve the heating and ventilation systems, and electric appliances. The use of renewable energies may be included in the works (e.g. biomass boilers or solar thermal collectors).

The project is expected to lead to a 50-70% decrease of the overall energy consumption of the buildings (to match the label “**Bâtiment Basse Consommation (BBC) Effinergie** Renovation”, a French energy efficiency legal certification).

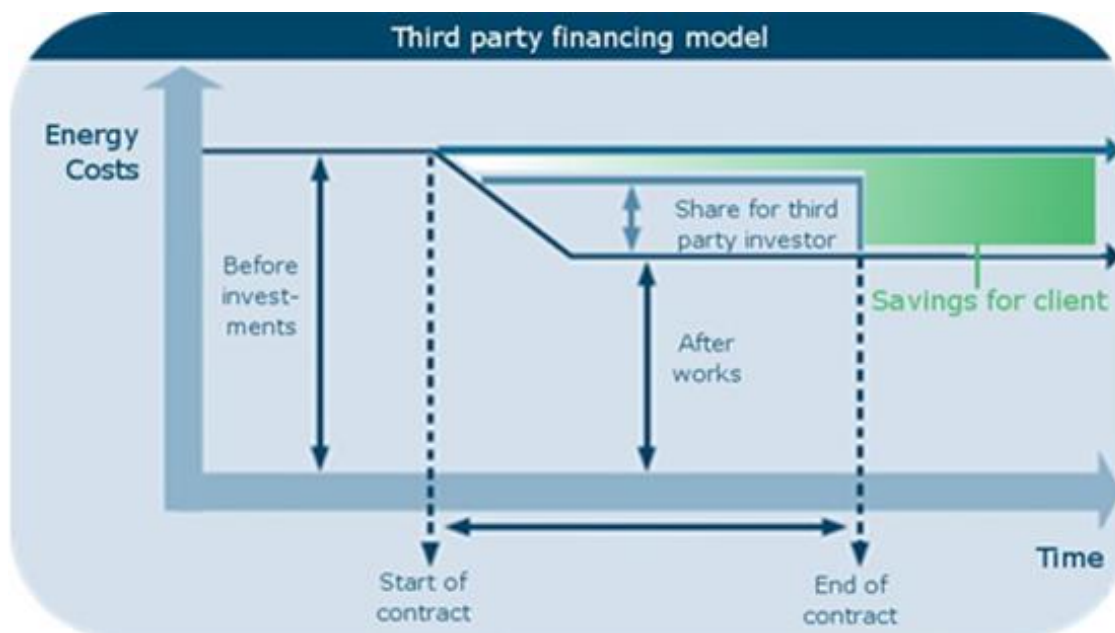
Moreover, the implementation of this particular sub-project is made through an innovative financing mechanism: **the Energy Performance Contracting** (see the following page).

An “innovative” financing mechanism: Energy Performance Contracting:

This EFSI supported energy efficiency programme is based on an “Energy Performance Contracting” (EPC) scheme. It is a form of ‘creative financing’ which allows financing a measure, for example the insulation of a building, with the money that will be saved in the future from the energy savings created by the measure.

Under the Energy Performance Contracting arrangement external organizations (STF – Société de Tiers Financement – Third-Party-Financing), which are public and public-private entities, implement the project to deliver energy efficiency and use the stream of incomes from the cost savings to repay the costs of the project, including the costs of the investment. Essentially the Third-Party-Financing will not receive its payment unless the project delivers energy savings as expected.

The approach is based on the transfer of technical risks from the individual households to the Third-Party-Financing based on performance guarantees given by the Third Party Financing (i.e. the realization of energy savings and lower energy bills ...). In Energy Performance Contracting the financial intermediaries’ remuneration is based on demonstrated reduction of energy consumption and cost savings; a measure of performance is the amount of energy savings or the quality of energy service¹.



Source: <http://www.sophia-group.be/third-party.php>

Energy Performance Contracting is a means to deliver infrastructure improvements to buildings and households that lack energy engineering skills, manpower or management time, capital funding, understanding of risk, or technology information. Cash-poor, yet creditworthy customers are therefore good potential clients for Energy Performance Contracting.

In principle, the Third-Party-Financing has three competences:

- 1) **Financial Engineering:** The Third-Party-Financing manages the financing of the operation to allow financial optimization, including the collection of available incentives such as tax reduction or additional financing support for a particular measure.
- 2) **Energy Performance Guarantee:** The Third-Party-Financing guarantees, in the Energy Performance Contract, a volume of energy savings (of which the monetary value evolves with the future energy prices). Even though it works together with partners and contractors of the project, it is the one that masters all the energy savings deposits and that offers integrated techniques.
- 3) **Real estate framer:** The Third-Party-Financing mobilizes companies in construction and public works (BTP - Batiments et Travaux Publics) to get a complete renovation offer, responding to economic objectives (sealing, cleaning, etc.) and private energy production. The guarantee for non-achievement of objectives is the responsibility of the Third-Party-Financing. However, this third competence is optional, and applies only if the Third-Party-Financing acts as an integrated operator, and not if it is limited to advisory activities (it then only realizes an energy audit, provides financial engineering and accompanies the client in the installation and monitoring of the project).

The Third-Party-Financing may be private but it is likely that it needs public or mixed capital to meet profitability goals in long-term perspective (15-40 years).

Sources:

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