



Setting Up an energy fund integrating ERDF

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2020TOGETHER
2020 Torino is getting there
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Short Description

This document describes the Piedmont Region ERDF and reports comments and remarks about the integration of EPC with such funds.

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Table of contents

1	Framework.....	3
2	Measure factsheet approved by Piedmont Region.....	5
3	Assesments on the EPC implementation by using the ROP measure.....	7



1 Framework

With the Execution Decision of the Commission of February 2, 2015 (ref. CCI2014IT16RFOP014) the “Regional Operative Program” for the support of the European Fund for Regional Development (hereinafter ROP ERDF) under the "Investment for growth and jobs" for the Piedmont Region has been approved.

The ROP ERDF 2014/2020 of Piedmont Region ROP has a budget of 965 Meuros and it is divided into seven Axes, 6 of which have a territorial impact.

- Innovation and Research, with a budget of 355 Meuros (37% of the overall budget);
- Digital Agenda: 88 Meuros (9%);
- Competitiveness: 212 Meuros (22%);
- Sustainable Energy: 193 Meuros (20%);
- Territorial Development: 29 Meuros (3%);
- Urban Agenda: 48 Meuros (5%)

Axis IV is for Sustainable Energy and quality of life. 35% of the budget is aimed at reducing energy consumption in production areas, 45% is for public buildings eco-efficiency and 20% for renewable sources to be consumed by Local Authorities.

In the framework of Axis IV “Sustainable Energy and quality of life” – Thematic Objectiv IV “Supporting the transition to a low-carbon economy in all sectors” (ref. Reg. 1303/2013 art. 9), in particular the Priority Investment 4.c (ref. Reg. ERDF 1301/2013 Art. 5). The priority is pursued on the support of energy efficiency, intelligent energy management and renewable energy use in public infrastructure.

To achieve these objectives the Piedmont Region will trigger different actions throughout the 2014-2020 programming period (calls) seeking to carry out retrofitting of individual buildings or groups of buildings, installation of smart remote control systems, control, management, monitoring and optimization of energy consumption (*smart buildings*) and pollutant emissions through the use of a technological mix.

In order to achieve the "Reduction of energy consumption in buildings and public facilities", the Region intends to enhance the leading role that the public sector can play in promoting energy efficiency measures. In this perspective, they will be funded programs aimed at reducing energy consumption in individual public buildings or for public use, or portions of land areas whose properties prove the public availability. Interventions need to be concluded with the energy certification of buildings. In order to maximize the benefits in terms of overall energy savings, the priority will be given to those interventions for which it can be proved, on the basis of energy audits, that are made on buildings with higher consumptions and greater potential for energy savings in relation to the needed investments. In this context “demonstrative actions” that assume great importance in terms of the effectiveness of initiatives can be realized with the aim of spreading out the practice elsewhere thanks to the potential replicability.



During the design phase of the form of incentives, the issue of public-private partnership and the implementation of investment plans by subscribing Energy Performance Contracts with Energy Service Companies (ESCOs) has been widely debated. This debate was conducted in parallel with the implementation of the European 2020Together project, co-funded by the Intelligent Energy Europe Programme

(<http://www.cittametropolitana.torino.it/cms/ambiente/risorse-energetiche/progetti-energia-sostenibile/2020together>).

The type of support provided in the Energy Fund is a combination of funding (soft loan + grant). Within the ROP ERDF 2014-2020, it is allowed the use of financial engineering instruments, useful to improve the access to credit for small and medium enterprises. The creation of any new financial instruments (such as soft loan) was subject to the performance of an ex ante evaluation (VEXA) related to market failures, inefficiencies of the instruments deployed, investment needs, possible private sector participation and resulting added value of the new financial instrument.

The analysis conducted by Vexa on the market failures and on the added value of the Financial instrument *showed that interventions that can be supported by ROP reveal different characteristics in terms of profitability and payback period, which could affect the degree of appealing for private entities*. In particular the two lines of action for energy efficiency on public buildings provided by the ROP ERDF, are divided into actions on the building envelope (passive measures) and installations (active intervention), with potential reductions of primary energy demand up to 35% compared to pre-intervention situation, but with a payback time on the investment significantly different and a consequent different attractiveness for the market.

On the contrary, the Commission Regulation (EU) No. 1303/2013 requires that financial instruments are used to "financially sustainable operations" and consequently turn to bankable interventions, with a secure, and in reasonable time, economic return.

Taking into account the projects selected but not funded during the previous programming period, Vexa highlights the need to support energy efficiency measures in LAs with a 90% theoretical total fund leaving at the local authority (or private) only the burden of a 10% co-financing amounting.

The solutions coming out from the analysis range from delivering a 90% capital up to 40% mix of capital and 50% of repayable assistance.

Coherently with the guidelines established by the ROP, energy performance contracts fully enter inside the implementation strategies of interventions on public buildings. However, the possibility of using the EPC has been reserved for a tender in which the aggregation of demand and a significant investment programs is provided, leaving to energy refurbishment projects of individual buildings proposed by small municipalities only the direct procurement option.

The energy fund factsheets will be modulated, not only related to size and type of local authorities involved, but also with respect to the potential size of the refurbishment interventions, the potential administrative capacity of the institutions and the ability to aggregate demand (bundling and pooling).

The reason behind this choice lies primarily in the fact that the management of performance contracting tenders implies for both beneficiary and Contracting Authority the implementation of a fairly complex procedure, which is justified only when the actions are such



big as to ensure the feasibility, effectiveness and added value of the use of a form of public-private partnership. It is also assumed that the LAs involved have an adequate understanding of the performance contract, or that they can support the costs of a legal advisor. The requirement of a centralised and qualified contracting authority puts additional constraints in the management of calls for tender that lead, in the implementation phase of ROP / ERDF, to exclude the local authorities with a lower population size and with a very limited investment program.

In particular, the measure factsheets addressed to local authorities and their associations (with a population exceeding 5000 inhabitants) between the forms of support identified by Articles. 66-69 of Regulation (EU) 1303/2013, for SIE Funds foresee to implement repayable assistance (soft loan). The peculiarity of the soft loan adopted is that, in certain performance conditions (namely the implementation of the investment in advance since what planned), part of the loan can be transformed into a grant.

2 Measure factsheet approved by Piedmont Region

MEASURE FACTSHEET	Reduction of energy consumption and use of renewable sources inside public estate of the Provinces, the Metropolitan City of Turin, municipalities or unions of municipalities with a population of more than 5000 inhabitants.
FUND	ERDF
ID of Program /AXIS	Axis IV Sustainable Energy and life quality
THEMATIC OBJECTIVE	IV.4 Supporting the transition to a low-carbon economy in all sectors
INVESTMENT PRIORITY	IV.c Supporting energy efficiency, intelligent energy management and the use of renewable sources in public infrastructure, including public buildings and in the housing sector
SPECIFIC OBJECTIVE/EXPECTED RESULT	IV.4c.1 Reducing energy consumption in buildings and public facilities, or intended for public use, residential and non-residential and integration of renewable sources
ACTION	IV.4c.1.1 Promoting eco-efficiency and reduction of primary energy consumption in buildings and public facilities: refurbishment of individual buildings or groups of buildings, installation of smart remote control systems, regulation, management, monitoring and optimization of energy consumption and emissions also through the use of a technological mix. IV.4c.1.2 Installing energy production systems using renewable



	sources for self consumption associated with energy efficiency measures giving priority to energy-efficient technologies.
TITLE OF THE MEASURE	Reduction of energy consumption and use of renewable sources inside public estate of the Provinces, the Metropolitan City of Turin, municipalities or unions of municipalities with a population exceeding 5000 inhabitants.
MEASURE OBJECTIVES	The goal is to promote the energy retrofitting of existing public buildings or groups of buildings, with a use destination coherent with the carrying out of public interest activities (institutional, social, school, educational, recreational, cultural and sporting) , excluding those intended for residential use and similar (E1 Presidential Decree 412/93).
ELIGIBLE MEASURES	Two lines of intervention are foreseen: Line A (Action IV.4c.1.1): Measures to reduce the energy demand of the building (eg. insulation of opaque and transparent structures, installation of solar shading and bioclimatic systems). Revision of the plants using fossil fuels by increasing efficiency, also through the use of technological mix and their subservience to the remote management and remote control systems. Line B (Azione IV.4c.1.2): admissible only if it is associated to Action IV.4c.1.1 or for already efficient buildings. Installation of energy production systems for own use using renewable sources for own use. The measures of both lines of intervention should be preceded by energy audits of buildings, drafted according to the minimum requirements of Annex 2 of the Decree. 102/2014 and s.m.i .. The retrofitting of the buildings must be made in compliance with DM 06.26.2015 "cd. minimum requirements" with reference to the performance levels whose entry into force is planned on January 1, 2019 and the ITACA Protocol.
BENEFICIARIES	Financial accomodations may be required by Provinces, the Metropolitan City of Turin, municipalities or unions of municipalities (chapter V of the Legislative Decree. N. 267/2000 and 11/2012 LR), with a population exceeding 5,000 inhabitants, as the owners or holders of rights in rem or personal right to use the property or the public buildings subject to intervention.
BUDGET	30,000,000.00 €
SUBJECT IN CHARGE OF MANAGEMENT / CONTROL OF THE MEASURE	The functions and tasks related to the evaluation, concession, delivery, withdrawal of subsidy, if any, are entrusted to Finpiemonte S.p.A., as Intermediate Managing body that employs a Technical Evaluation Committee composed also by officials of the of the Regional Competitiveness System Department. Finpiemonte S.p.A. it is also responsible for the first level controls/management audits, which carries out directly with the



	exception of those relating to the respect of rules on public procurement, which shall be performed by the Monitoring, Evaluation and Control Sector of the Regional Competitiveness System Department.
TECHNICAL AND ADMINISTRATIVE PROCEDURES FOR SELECTION AND EVALUATION	The evaluation process of applications follows the principles of a ranking tender, subject to the provisions of the document "Methodology and selection criteria of the ROP / ERDF 2014-2020 operations", approved by the ROP Monitoring Committee of June 12, 2015. Intervention priorities are defined in the Energy Emission Analysis, which is a prerequisite for the application. The criteria for evaluation are detailed in the Tender.
TYPE AND ENTITIES OF FINANCIAL ACCOMODATIONS	The project is eligible if it involves eligible costs of between € 1,000,000 and € 3,000,000 VAT including. The financial accomodation mandatory consists of: <ul style="list-style-type: none"> - Subsidy / Capital contribution amounting to 40% of eligible costs; - Soft loan (repayable assistance) amounting to 50% of eligible costs. The beneficiary contributes with its own resources to the 10% of eligible costs. A share of no more than 20% of the subsidized loan may be converted into Capital contribution as rewarding related to the time reduction in the intervention realization. The subsidy is cumulative with the incentives referred to D.M. February 16, 2016 the "cd Conto Termico", or other forms of credit is not granted by the Piedmont Region or in house entities, with the limit of 100% of the eligible costs.
INTERVENTION SECTORS	Energy refurbishment of public infrastructure, demonstrative projects, support measures (Implementig Regulation (EU) No 215/2014 of the European Commission - March 7, 2014).

3 Assesments on the EPC implementation by using the ROP measure

The implementation of investment plans in energy efficiency by signing EPC with the involvement of ESCOs, still moves in a poorly consolidated market. Moreover the entry into force of the new procurement code (Legislative Decree 50/2016), that has radically changed the rules on concession and public-private partnership contracts, has created further uncertainties. EPCs have unfortunately not found in the Italian discipline their right place within the new Procurement Code. They still are appointed as a contract, but in an atypical form. The Italian code on public procurement postpone to implementing acts (i.e. decrees and guidelines), that are not creating nowadays a clear framework picture. For this reason it was



decided to leave open to beneficiary administrations the possibility to freely choose between the activation of forms of PPP and traditional procurement.

Looking at the investment plans implemented in Italy in recent years with the signing of the EPC, different approaches can be highlighted. In some cases service contracts were used (such as the initiatives promoted by Modena and Marche Region), while, in other cases, PPP have been used (among others, the initiatives promoted in Turin, Milan, Chieti, Padua). The scenario then is still open and does not seem to have been established a unique way. The PPP is still the proven option within the 2020Together project and it seems that it can provide the best guarantees for the off-balance-sheet booking of the investment made by following the proper risk allocation.

In accordance with Regulation 1301/2013 including common provisions on the European funds, in the case of a PPP in which the beneficiary is a public body, the expenditure incurred and paid by the private partner may be considered as incurred and paid by the beneficiary, provided that the following conditions are fulfilled:

- the beneficiary has subscribed a PPP contract with a private partner;
- the managing authority has verified that the costs reported by the beneficiary have been paid by the private partner and that the operation is in accordance with Union law and national law, as well as with the program and the conditions for supporting the intervention.

This provision makes PPP contracts eligible for funding even if the currently setting given to the measure factsheet provides that the beneficiary and, therefore, the subject called to the contribution reporting is always considered the public entity. Eligibility is then subject to recalculation constraint of subsidies granted through the application of the provisions of Art. 180, paragraph 6, of Legislative Decree no. 50/2016, which provides the reduction to 30% of public subsidy supporting a PPP operation. The choice of interacting only with a public beneficiary has been imposed by the ROP Managing Authority in order to reduce the risk inherent private traders.

Due caution should be employed when speaking about state aid. The POR subsidies should not be configured, at beneficiary and its partners level, such as state aid pursuant to Art. 107 et seq of the Treaty on the Functioning of the European Union. The beneficiary will have to configure the tenders and PPP contracts in such a way that even for the contractor (in case of



procurement contracts) or to the private partner (in the case of use of PPP contracts) these financial benefits would not constitute state aid, direct or "indirect". This caution implies a investigation burden at a preliminary stage and then during the implementation of funded interventions by the regional authority specifically responsible.

Another warning element lies in the potential limitations in case of a bundling approach among several municipalities. It is eligible a proposal submitted by a lead applicant in partnership with other Municipalities. The approach could be negatively influenced by two constrains. First of all, the fact that only one proposal can be funded per beneficiary. In this way the leading role of a pooler can prevent the concerned authority to submit further proposals for their own properties. In this way, given the fact that only one could be funded, a Municipality Union or a Province should decide either if submit a proposal for their own buildings or for an aggregation of municipality, or a combination of the two options. The second constrain is that the beneficiary have to manage the soft loan for the whole consortium for a period that goes far beyond the investment implementation. This could be an additional burden that might affect the willingness of proceeding this way.

The experience gained with 2020Together project shows that additional incentives are not always necessary for the financial sustainability of EPC interventions supported by third-party financing. The set of incentives present at the national level and in particular for the "conto termico" can already guarantee the conditions that allow ESCO to find a return on investment within a EPC contract of medium duration.

Of course, every investment program has its economic framework conditions and its technical features. Additional public benefit, in line with the procurement law limitations, can be, in most cases, an additional thrust to engage less attractive EPC buildings operations to the market or to reduce the contractual duration.

The peculiarity of the measure identified by the Piedmont ROP also opens interesting scenarios to other EPC schemes, in which the investment is not made directly by the private operator, but commissioned directly by the municipality and bound to a management and maintenance contract with guaranteed results. Hence the remuneration of the management phase is bound to the actual achievement of performance constraints indicated under the



tender. This approach is adopted in Countries where the public debt is not an issue, such as in France.

In conclusion, it can be said that every investment transaction has its own characteristics and economic and financial sustainability conditions. There are no ex-ante recipes to be replicated anywhere and in any context. Even the EPC modulation in defining the baseline, forms of remuneration, the tendering procedures and public accounting implications must be adapted to the boundary conditions imposed. The energy fund for public authorities defined by the Piedmont Region creates the conditions for the applicability of some forms of EPC, which surely will make a contribution to improving energy efficiency and promoting low-carbon economy advocated at European level.

