

Scaling Up Energy Efficiency Financing
“A Practitioners Perspective”

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June 2009

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Energy Efficiency Barrier

One of the most significant barriers to the “Global” implementation of “clean” and “proven” EE Technologies is:

Lack of Commercially-Viable Financing

Cause of EE Financing Barrier

- Problem is **NOT** a lack of available funds!
- Problem is getting access to available funds at Local Financial Institutions (“**LFI**s”)
- Caused by a “**DISCONNECT**” in current lending practices of LFIs and needs of Energy efficiency & Savings-based renewable Projects (“**ESP**s”)

“DISCONNECT” *is that LFIs typically:*

- **Provide “asset-based” lending limited to 70%-80% of asset value (ESP Value = Savings)**
- **Do not acknowledge (or believe) Savings from ESPs = increased credit capacity**
- **Not familiar with complexities of ESPs (Measuring “Absence of Energy” = Savings)**
- **Lack experience to properly evaluate risks & benefits of ESPs and are unwilling to invest in building capacity due to relatively small size**

The “PERFECT” EE Financing Structure

Provided by LFIs on a Project Basis:

- **No Collateral requirement beyond EE cash flow and equipment from Developer or “Creditworthy” Hosts**
- **Construction Financing provided**
- **Minimum 7-year Repayment Term (+ Construction)**
- **Local Currency Based**
- **“All in” costs must relate to Market Interest Rates.**
- **Must be able to clearly Measure & Verify Savings**

Solutions Needed to Scale Up EE Financing

- Train LFIs how to evaluate the benefits/risks and understand the “complexities” of financing ESPs (**International Energy Efficiency Finance Protocol “IEEFP”**)
- Provide new EE performance and credit risk guarantee products to LFIs that promote their willingness to finance ESPs from savings
- Aggregate multiple ESPs that utilize “proven” standardized documents and methods to reduce transaction costs and increase financed amounts

IEEFP Summary

- A Global “blue print” for LFIs to finance ESPs;
- A “grassroots”, consensus and market-based “*Bottoms Up*” vs. “*Top Down*” approach
- Focuses on the “Savings Value” of ESPs for loan repayment and credit capacity review
- Provides standardized procedures, guidelines and criteria for evaluating ESPs
- Mandates standard savings M&V (like “**IPMVP**”)
- Utilizes an expanding repository of Case Studies

EE Financing Scale-Up Efforts in Mexico

- IEEFP-Mexico and related Bank Training Workshop completed (**www.encyvaluation.org**)
(Funding from APEC and GOF)
- “Performance” and “Credit” Risk Guarantees being provided to LFIs by NAFIN
(Funding from USTDA)
- Demonstration Projects being developed that use NAFIN Guarantees and SPEs to aggregate ESPs
(Funding from REEEP)

“Funding Gap” in China

- **Banks typically require ESCOs to:**
 - **invest equity in their ESPs (20% to 50%)**
 - **provide liquid collateral to secure loan (beyond ESP assets)**
- **Most ESCOs are (“SMEs”) with limited equity and collateral capacity**
- **Few Banks in China have internal capacity to evaluate, recognize, or accept cash flow from ESPs as collateral for loans**
- **Few Equity Investors interested in ESPs versus IPOs with companies.**

EPS

“Reg. U.S. Pat. & Tm. Off.”

\$100M China EE Fund

(Energy Efficiency Project Investment Company)

- **Raised by EEPIC to invest in PRC ESPs to:**
 - Fill “Funding Gap“ of ESCOs and fund their backlog
 - Overcome “Technical Gap” of certain ESCOs to increase technologies implemented and project size & investment
- **Invest Fund equity alongside bank debt to provide all capital for ESCO to implement ESPs**
- **Provide ESCOs with construction and long-term funding of ESPs**
- **Utilize SPEs to aggregate ESPs (plus “CERs”) and access local bank debt on a “facility” scale**

“Scaling Up” Benefits

- **Accelerated implementation of energy efficiency**
- **Reduced EE market barriers for end-use Hosts**
- **Market-based, sustainable Commercial Lending sector that promotes energy efficiency**
- **Capacity Building of LFIs to finance ESPs:**
 - Decreased risk perception of EEP Savings
 - Reduced loan process & transaction costs
- **Aggregated financing of ESPs**
- **Delivery of long term Energy & GHG reductions**