



Financing energy REfurbishment for Social Housing

The FRESH project

“International conference on energy performance contract (EPC) and their practical application in social housing: perspectives of development, obstacles and successful case histories.”

Roma, 30th May 2012



Christophe Milin, ICE

1. The FRESH project
2. Main recommendations from FRESH

□ FRESH partners

	Bulgaria	France	Italy	United Kingdom
Social Housing Operator				
ESCO				
Other				

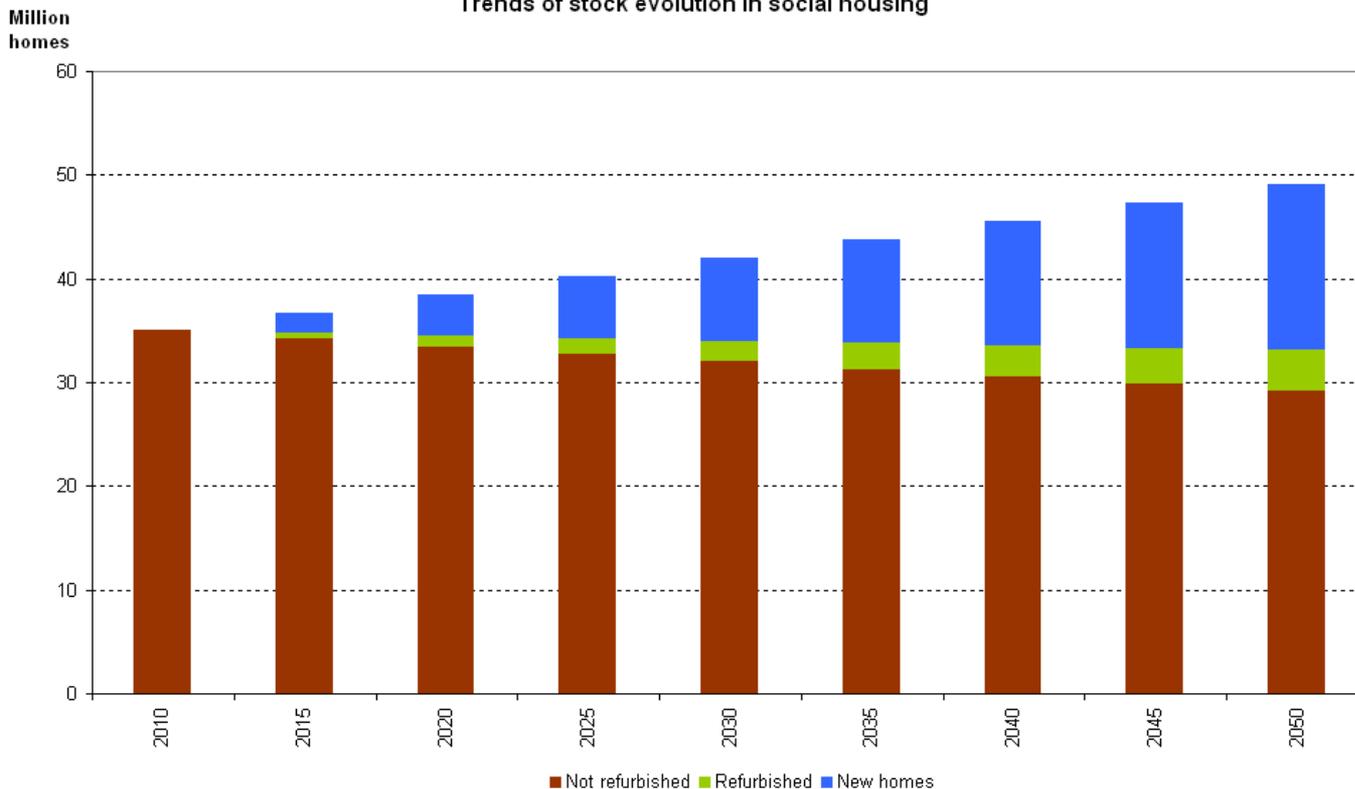
- + associated technical assistance
+ tenders to select ESCOs

□ FRESH calendar

- June 2009 – June 2012

- Social Housing in the UE:
 - 35 million homes (17% of the overall stock)
 - 120 millions tenants
- Current trends in Social Housing
 - Over 70% of the 2050 stock is already built in 2005
 - Current energy refurbishment trends do not allow Factor 4 in social housing

Trends of stock evolution in social housing



Change scale

Accelerate rhythm

- **“Factor 4” largely exceeds the direct investment capacity of most building owners**
 - ▣ 23k€ on average for low energy refurbishment⁽¹⁾
 - ▣ 270 up to 670 billion € at European level between 2010 - 2050

- **The only financial resource available in an appropriate volume is the energy savings**
 - ▣ Cost of refurbishment 140 €/year/40 years on average per inhabitant of social housing
 - ▣ To be compared with UE budget in 2010 of 280 €/year/EU inhabitant⁽²⁾
 - ▣ To be compared with average domestic energy bill of 590€/inhabitant/year⁽³⁾

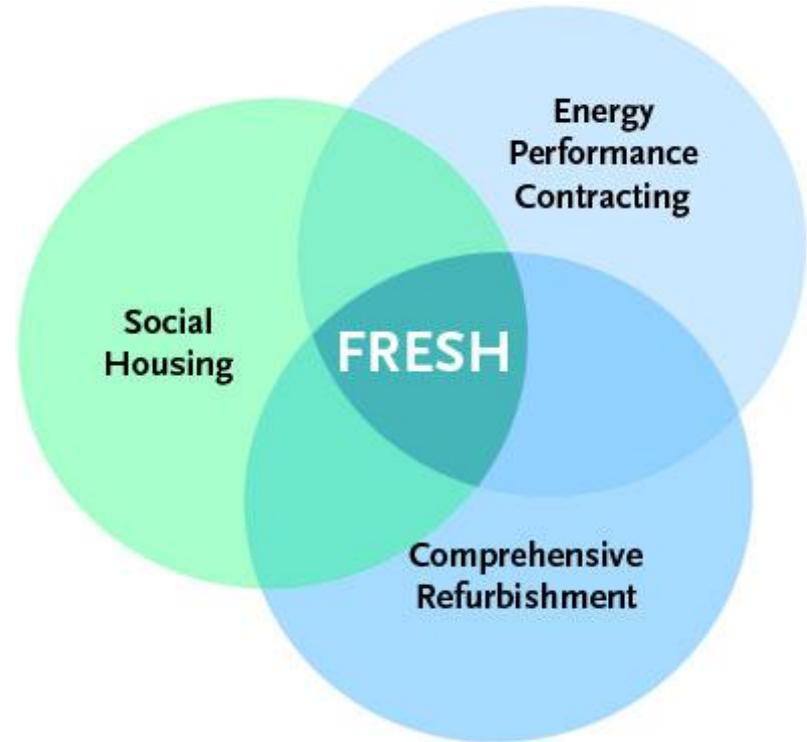
- **Is Energy Performance Contract a solution ?**

(1) Source: IDDRI 2010

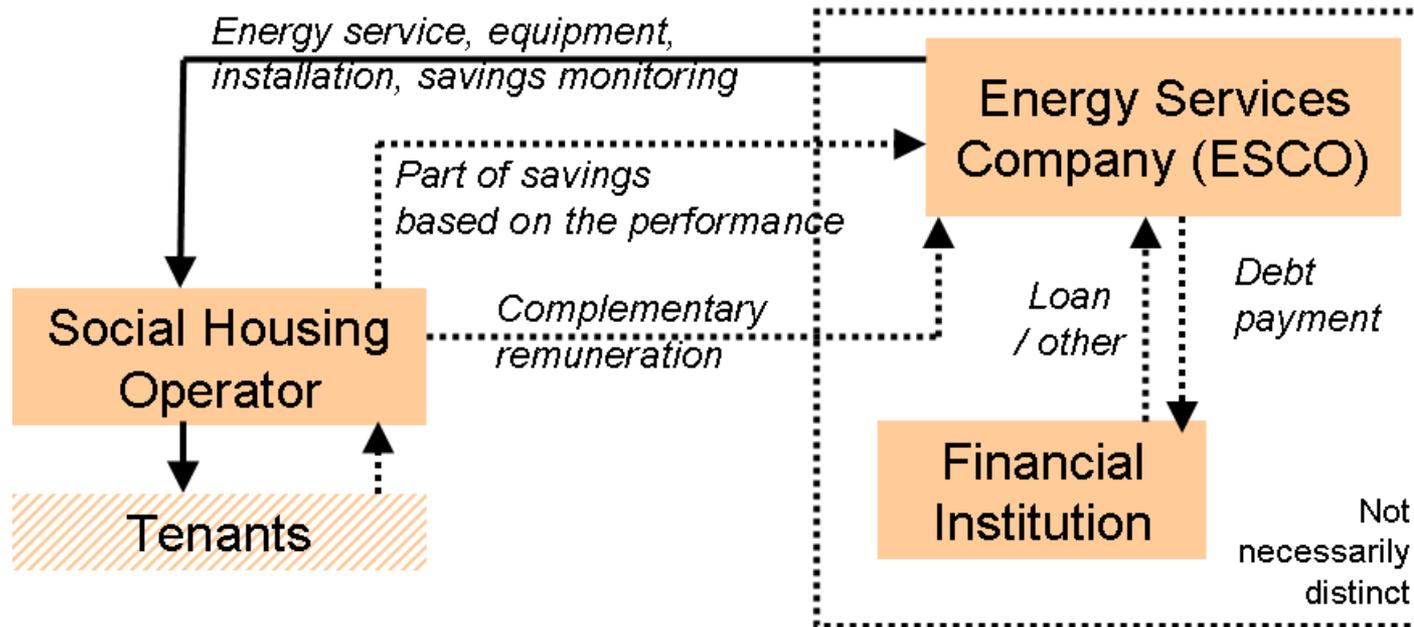
(2) Source: Euractiv 2010

(3) INSEE 2006; data for France (71% heating; 13% light and appliances; 10% hot water; 6% cooking)

- Comprehensive Social Housing Refurbishment through EPC
- Test implementation in France, UK, Italy and Bulgaria
- Demonstrate feasibility conditions to social housing operators and authorities
- Produce **guides** and **recommendations** for large scale replication



1. The FRESH project
2. Main recommendations from FRESH



- ❑ Capped rents (except Bulgaria, owner occupied)
- ❑ No contractual relationship between the ESCO and the tenant (France, Italy)
- ❑ The SHO has an EP contract with the ESCO
- ❑ EPC costs are integrated in the traditional rent contract like O&M charges

Allow recoupment of savings from tenants

- With current conditions, energy savings recouped from tenants (if any) are not sufficient to repay a significant share of investment
 - Italy: can be recouped with the agreement of 100% tenants
 - France: savings can be recouped but limited to 50% of the conventional savings for a maximum duration of 15 years, without any energy price adjustment
 - At the French pilot site, savings recouped = 16% of the investment (without financial charges)
- Rent laws need to be adapted:
 - Introduce a **specific status** for EPC in **recoverable housing charges**
 - Introduce the possibility to **charge an “energy efficiency service”**
 - Increase the share / duration of savings recouped from tenants
 - Switch to « **warm rent** » = global fee for the rent and energy charges (reasoning in global cost)

- In some EU countries, SHOs benefit from:
 - ▣ Subsidies
 - ▣ Tax exemptions (notably lower VAT)
 - ▣ Subsidized loans
 - Those advantages shouldn't be lost through EPC
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- Allow access to existing support schemes for the ESCO, working **for** and **on the behalf of** a SHO through an EPC, as:
 - ▣ the retrofit of Social Housing is ultimately beneficial to tenants;
 - ▣ ESCO would not be substituting SHO but rather working on its behalf;
 - ▣ SHO remains the owner of the operation.

- Energy Performance Guarantee
 - ▣ Guaranteed Energy Savings?
 - ▣ Guaranteed Energy Consumption?
 - ▣ Guaranteed Energy Efficiency?
- Measurement and verification
 - ▣ Real or conventional performance ?
- Third-Party Financing to be included?



Not one generic definition but a family of operational definitions

Improve understanding by potential clients of the possibilities and risks.

Facilitate the **marketing** of their services by ESCOs.

- Large share of SHOs conforms to public procurement rules
 - EPC is compatible with current EU public procurement rules but...
 - ... complexity, real or perceived:
 - Is still an obstacle for large scale use
 - Requires highly trained expertise and increases the transaction costs
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- **Clarification** of the rules for EPC could trigger wider use:
 - Distinction between design, construction and operation
 - Differed payment
 - Maximum duration
 - Possibility to externalize debt through EPC
 - **Guidelines** & methodologies would also be useful

- Awareness & understanding of EPC has increased in recent years
- But **skepticism** towards its advantages among both clients and financiers remains a barrier
- Most important motives for mistrust:
 - ▣ **Inhomogeneous ESCO offer**
 - ▣ **Lack of experience** of clients, ESCOs and financial institutions



- Create **quality labels** and **voluntary certification** schemes
 - ▣ improve confidence in the services offered by ESCOs
 - ▣ facilitate the marketing of ESCOs' services
 - ▣ support the quality of independent EPC auditors

- Real and perceived risks in the housing sector
- If a technical default is to occur, it is more likely to take place during the first years of the contract



- Support further pilot operations in the housing sector
 - Develop Member States' specific assistance and guidelines
- Develop insurance mechanisms
 - Support the development by insurance companies of specific energy performance insurances
 - Support the creation of guarantee funds to mutualize the risks among investors



Thank you for your attention

for further information...

Christophe MILIN

ICE, BURGEAP Group

27 rue de Vanves
92100 Boulogne Billancourt
FRANCE

+33 (0)1 46 10 25 51

c.milin@burgeap.fr

www.fresh-project.eu

Financing energy refurbishment for social housing.

Given the context of rising energy prices, fuel poverty affecting millions of households across Europe and the need to mitigate climate change, it is crucial that the existing social housing stock be massively refurbished at very low energy standard. With only 3% of the housing stock being refurbished every year, reaching the "Factor 4" objectives implies developing new adapted funding to generalise low energy refurbishment.

In the FRESH project, social housing operators and energy services companies (ESCO) from France, United Kingdom, Italy and Bulgaria propose to open the way and demonstrate that energy performance contract (EPC) can be used in social housing.