



## **ENPCOM Project – European Network for the Promotion of Covenant of Mayors**

### **“ Models of collaboration between public and private in transports and housing sectors”**

**Bruxelles event (June 22/25 2014):**

#### **The ENPCOM Project**

The European Union has adopted a medium-long term strategy to be used as a guideline for its climate and energy policies until 2020 (the 2020 climate and energy package)<sup>1</sup> and it has revised the objectives for 2030 (2030 Framework for climate and energy policies)<sup>2</sup>, taking into account the recent economic changes, the progress in the fields of technology and research, and the evolution of energy prices.

The achievement of the European targets on climate and energy, however, must inevitably pass through the full involvement of local authorities and citizens, as it's in the cities that the 80% of energy consumption is registered. The need for a bottom up approach to energy policies is at the basis of the European initiative of the **Covenant of Mayors**<sup>3</sup>, launched by the European Commission in 2009, which started the experimentation of a new method to tackle issues of European interest, based on the direct involvement of local communities and citizens in the fight against climate change and in a sustainable use of energy.

The ENPCOM Project – European Network for the Promotion of the Covenant of Mayors, funded within the Europe For Citizens Programme (which measures 1.2 networks between cities) works in this area, strengthening the citizens' involvement in the fight against climate change and contributing to the development of collective and individual good practices through the comparison of local experiences.

Municipalities and other European subjects (Provinces, regions, associations of local authorities) involved in the project are committed, at different levels, to the planning and the implementation of actions on energy and of the reduction in CO2 emissions. The sustainable energy action plans represent a planning instrument

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<sup>1</sup> [http://ec.europa.eu/clima/policies/package/index\\_en.htm](http://ec.europa.eu/clima/policies/package/index_en.htm)

<sup>2</sup> [http://ec.europa.eu/clima/policies/2030/index\\_en.htm](http://ec.europa.eu/clima/policies/2030/index_en.htm)

<sup>3</sup> [http://www.covenantofmayors.eu/index\\_en.html](http://www.covenantofmayors.eu/index_en.html)

common to all the European local administrations, with standard and uniform rules valid throughout Europe; these standards enable debates and the sharing of results.

The targets of the project are:

- The integration of European communities involved in the issues of climate, emissions, energy policies and strategies of adaptation to climate changes;
- Exchange and comparison of experiences regarding good practices of the citizens, finding ways to endorse and promote them;
- Selection of communication tools between administrators and citizens to improve the capability of quantification/monitoring of private consumptions/emissions and to improve the effectiveness of action of the SEAPs;
- Dissemination of the Covenant of Mayors' principles and goals and of European energy policies;
- Sharing of the best practices undertaken by local administrations

The projects includes four thematic events:

1. Energy consumption census and monitoring and the behavior of citizens (Pisa, 27-30 January 2014)
  2. Models of collaboration between public and private in the transports and housing sectors (Bruxelles 23-25 June 2014)
  3. Models of collaboration between public and private in manufacturing companies: innovation, sharing, and energy efficiency ( Spain)
  4. Citizens' involvement in the implementation of energy policies: daily good practices, inclusion in the SEAPs and dissemination of the results.
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## **SUMMARY**

### **Bruxelles Event 22-25 June 2014**

The second ENPCOM Project event took place in Bruxelles from the 22<sup>nd</sup> to the 25<sup>th</sup> June and part of the works were integrated in the EUSEW – European Union Sustainable Energy Week planning, in order to give the project more exposure and to insert it in an institutional context of a relevant European interest.

The main theme of the event, “Model of collaboration between public and private for the implementation of energy policies” was dealt with through a working method which assured the discussion and the debate between the partners. Moreover, the direct contact with European institutions and their representatives, contributed to the promotion of the connection between local administrations and European institutions, conveying opportunities and their functioning.

#### **23 June 2014**

On 23<sup>rd</sup> June the opening conference was held at the Economic and Social Committee, in the presence of the EESC representatives, the Covenant of Mayors Office, the European Commission, and of private companies which operate in the sector of management and construction of public-private partnerships.

The meeting, as underlined by **Antonello Pezzini - EESC Counselor**, who opened the works, aims to aggregate interests and to put into focus the terms of the issues, taking stock of the situation. The energy issue is a pivotal element in the EU policy, as proved by Art. 194 of the Lisbon Treaty, which introduced a specific legal base on energy, that enables the EU actions in this sector to be clarified.

Europe wants to pursue new frontiers together with the Mayors, for the implementation of energy policies and sustainable development. On partnerships, both public-private partnerships and public-public partnerships, an amount of EUR 22 billion was earmarked on the 2014-2020 EU budget, and integrated to the 2020 Horizon Programme. The topic of collaborations between public and private is one of utmost importance, even if it is seldom given proper consideration by local administrations or national institutions (especially in Italy and France). The entirety of funds pertinent to the 2020 Horizon Programme, which amounts to over EUR 80 billion, constitutes a further opportunity for local administrations. Through this programme, new and innovative forms are incentivized, the prototypes, and Europe could be interested in financing them.

It is important to understand the need to broaden our minds when it comes to ideas. The Covenant of Mayors is the tool that allows local administrations to face these topics, and to understand the existence of problems that are not to be solved by Europe or the State, but must be faced by the Region and in some cases, local administrations themselves. Besides the Covenant of Mayors, Europe has also created the Covenant of Industries, which includes the craft sector. In Italy there are about 770.000 industrial warehouses that are energy-consumptive, and also 16 million of electric machinery which have a very high energy consumption level. The 640/2009 Regulation establishes that from 1<sup>st</sup> of January 2015 in Europe there must be exclusively low energy consumption engines (EF3 or EF2 with a regulator). It is necessary to intervene and develop a synergy between Regions, Municipalities, professional associations, trying to intercept the EIB financings (the Lombardy region is already operating in that direction). The aim is to decarbonise and, at the same time, to create employment. All this can be done as long as civil society, local administrations, professional associations, can control these issues and turn to specialists to carry out these interventions. Today Europe is working on the new 2030 frontiers, the 20-20-20 targets are considered overcome, and the new targets are 40-40-37. There is a big difference between the speed with which Europe and the most virtuous nations are proceeding, and the slowness of regions such as Italy, and this slowness can be measured in the field of rules enforcement. Sweden, Finland, Germany, Denmark and Holland have the ability to insert themselves in the innovation that is emerging in Europe and to make an impact on it, participating in the creation of innovative directives approved by the Council of Ministers. On the matter of renewable energy, Italy is at 13.5% , while Finland is at 51%. It is clear that, when a directive such as the 2009/28 on renewable energy is adopted, Finland easily succeeds in applying it while Italy lags behind.

**Andrea Accorigi, (Covenant of Mayors office)** illustrated the state of art of the Covenant of Mayors 5 years after the launch of the initiative by the Commission. Local authorities have a key role in the implementation of EU energy policies, but in countries such as Italy and Spain, where there are many small municipalities, support on a higher administrative level is needed (Provinces, regions and also at a national level). The Covenant of Mayors involves 51 Countries and it is an initiative that goes beyond the European Union (Asia, South America, the Mediterranean basin). Italy constitutes an interesting case because more than a half of the Italian population is represented; as a matter of fact, more than 1 over 2 citizens in Italy resides in a Municipality which has signed the Covenant of Mayors (the signatories are 2734, almost half of the signatories at European level are Italian). However, there is another significant fact on which can be relevant to reflect on, and that is the one regarding the suspended signatories (there is a suspension in the

following cases: if the SEAP is not submitted within the deadline, if the monitoring report is not submitted within the deadline, and if the target of the 20% reduction was not achieved): in Italy there is a growing number of suspended signatories, about 15% of the 2734 signatories; also, about 50% of all the suspended signatories at a European level are Italian. 1912 Italian SEAPs for sustainable energy were submitted. The majority of the Municipalities which have agreed to the pact are small-sized (in Italy 70% of the municipalities have less than 5.000 inhabitants), with scarce economic and technical resources. Also the majority of the Municipalities which were suspended are small -sized. The Covenant of Mayors is not only a tool for the fight against climate change, but it is above all a tool for economic, social and environmental development in the territories. The SEAP has an aim and it has a strategy to achieve it which involves all the subjects on the territory: not only local administrations, but also enterprises, local craftsmanship, citizens. On the topic of energy security, on 28<sup>th</sup> of May the European Commission adopted a communication which establishes that the Covenant of Mayors is part of the energy security strategy: Member States are called on fostering the implementation of these Plans to reduce the local energy consumption and to boost the local energy production. Moreover, the Covenant of Mayors promotes the formation of human capital and fosters the opportunity to learn one from the other in order to mutually grow. In order to endorse the Covenant of Mayors to the maximum, a financial, juridical and technical support is necessary. The Covenant of Mayors' policies must be seen as areas for the investment of funds from the cohesion policy. The energy efficiency contract is a finance scheme that, in some way, tackles the limits of the Stability Pact, such as revolving funds and private funds. From a legal perspective, in some regions, the Covenant of Mayors is seen as part of the energy and development strategy of the region. The Covenant of Mayors is also the platform for the exchange of good practices from a technical point of view.

**Iskren Kirilov Todorov, (European Commission)** drew attention to the new partnership models, which are part of an investment package for innovation, and constitute a key tool for the implementation of the 2020 Horizon Programme, the EU research and innovation programme. The investment package is composed by 5 proposals aimed at the establishment of public-private partnerships in the form of joint technology initiatives under Art. 187 of the Treaty, and 4 proposals aimed at the establishment of public-public partnerships with Member States under Art. 185 of the Treaty, for the joint implementation of international research programmes. The proposals for public-private partnerships regard the sector of innovative medicines, cells and hydrogen fuels, reduction of the environmental impact of the next generation of aircrafts, bio-based industries, etc. Public-public partnerships include the Active and Assisted Living Research and Development Programme, eurostars II in favour of those SMEs that deal with research and innovation, the European Metrology Programme for Innovation and Research and the 2<sup>nd</sup> European and African Countries Clinical Trials Partnership. This package represents an overall investment, for the next 7 years, of about EUR 22 billion, of which EUR 8 billion from 2020 Horizon, which will incentivize the income of EUR 10 billion from the industry and of almost EUR 4 billion from Member States. These figures correspond to the proposal made to the Commission; later, through the negotiation procedures, they were slightly reduced by about 10%. After this accelerated negotiation, on 6<sup>th</sup> of May the Council adopted the corresponding regulations published in the Official Journal of the EU in the 7<sup>th</sup> of June issue. Now we are waiting for the first calls for proposals, which will probably be published on 7<sup>th</sup> of July. The new partnerships were conceived within a specific framework. The reference, first of all, is to the 2020 Strategy which aims at developing favourable conditions for investments in the fields of knowledge and innovation, specifying the methods through which smart, sustainable and inclusive growth can be achieved. Public consultation for the revision of the Strategy is open until October, and Municipalities are invited to submit their proposals for the future. The economic crisis underlined how an exclusively service-based economy is not sustainable anymore. This clarifies the

target for the industrial sector, which aims at having 20% of the GDP generated by the manufacturing sector by 2020. Therefore, it is also important to consider the framework in which the 2020 Horizon programme was conceived, as these partnerships constitute an instrument for its implementation. The main difference between 2020 Horizon and the seventh framework is that now it is possible to finance all the production chain, from basic research to the placing on the market. The rules of 2020 Horizon were simplified and they are applied to new partnerships. There is hope for a greater involvement of researchers and SMEs. One of the 2020 Strategy's main aims is that of investing 3% of the GDP in research and development, but the progress toward the achievement of this target are still insufficient, especially regarding private investments. The Countries which have invested the most in research and development are those which have shown a bigger resistance to the economic recession. Starting from these observations, Europe has built a new generation of partnerships. Art. 25 of the regulation establishing 2020 Horizon defines the new criteria and the aims of partnerships, that induces us to talk about a new generation. General targets are more ambitious and specific ones are more precise. Moreover, each specific aim is combined with a series of helpful indicators to monitor actions. The governance and the links to regional and national activities were refined. In order to strengthen these links, the group of representatives of the Member States, which is an advisory body to all these partnerships, was strengthened as well. The representatives of the Member States inform the Commission on the development of initiatives of interest in order to strengthen the synergies between those activities developed in the partnerships and those funded also by Structural Funds. Thanks to the group of the Member States' representative, it is possible to make proposals and to follow the activities' development.

**Piero Atella, manager of Sinloc Spa's South Area**, explained the financial structure of the PPP operations in the sector of energy efficiency.

What are the methods of financing through which actions established in the SEAPs can be implemented? There are two main methods: the classic method of free grants, or alternatively, the public-private partnerships. The Commission identifies the features of partnerships in four elements: a long-term relationship between the public sector and the private sector, a financing method for the project where the private subject provides some of its own financial resources, financing up to 100% of the implemented project, the allocation project risks both to the public sector and to the private sector. In an operation of public-private partnership, the project is the main focus of all the different subjects who are part of the initiative's success. In order to implement a PPP project there must necessarily be an advantage for all the operators. In particular, there is a distinction between the public partner and the private partner. The public partner must ensure that the project is of general interest and that it increases the economic benefits of the community. Afterward, the best course of action to implement that work (PPP, contract) must be pinpointed. As regards PPP, both the interest of the public subject, and the interest of the private subject must be evaluated. It is necessary to ensure that the project is economically sustainable, and that there is a fair relation between project risks and return for the private subject. It is clear that a private does not implement a work if this does not bring in a return. These evaluations are carried out through the cash flow method.

#### *Projects for energy efficiency and PPP schemes*

For the application of PPP schemes to energy efficiency projects, the PA should, as a first step, develop a feasibility study to pinpoint the consumptions, the requirements in the different points of consumption, and the pursued targets. In the case of the Italian legislation, the PA has two possibilities: it can opt directly for a call for tenders with a feasibility study, or it can develop a project, which means that it must analyze

the initiative from a technical, juridical and economic point of view. If the PA decides to develop the project, the call for tenders phase will open. In the case of a PPP procedure, the model which is generally adopted in the sector of energy efficiency is the creation of the project through an ESCO (Energy Service Company). The winner of the call for tenders, in this case, will have the task of planning the initiative, dealing with the purchasing phase, the implementation of the project, the financing and the management of the work for a specific number of years. The feasibility study evaluates the economic and financial sustainability of the investment, or the need, if any, for a contribution in capital account for the creation of these works. This is an aspect of utmost importance, and it is a guarantee of the participation of private subjects to the call for tenders. These operations can often be funded through a project financing structure.

There are different financial tools to implement energy efficiency works and projects. Public contributions can be used to finance projects that have returns in the long-term (for example, the exterior insulation and finishing of a building). It is unthinkable to carry out a PPP operation financed exclusively by the private subject to do an exterior insulation and finishing of a building, as the operation wouldn't allow for the recovery of the private's capital. With a lack of public funding, this kind of work cannot be carried out in the PPP form.

Another tool is given by the forms of debt deriving from public resources. The Jessica funds and the revolving funds will have an ever-growing role in project financing. In the cases in which resources for the projects come from public funding, they have to be reimbursed and can still finance projects that have a return in the medium-long term, like the investments on public lighting systems.

Bank financing in this particular moment is unsuitable for projects with very long returns; it is suitable only for those projects that have a duration of a maximum of 10 years. Other kinds of financing are represented by the infrastructural funds, not much developed in Italy. All these forms of financing can be mixed to finance a project that has different features. For example, energy efficiency can involve the exterior insulation and finishing of buildings, or the renovation of the whole internal plant design. In this case, it will be possible to use in part a public financing, and for the other part a private financing. In the choice between a PPP and a traditional financing, the PA can choose among three forms of financing, such as the transfer of public funds, the indebtedness with all its limits, and the indebtedness through these innovative financial tools, such as the Jessica Funds. To apply the PPP models (ESCO) means to have multiple sources of financing at disposal, and to promote the creation of that mix of financing sources and type of investment.

Energy efficiency projects, being easily implemented by means of building works, have important environmental and economic benefits for the public subjects over a long period of time. It would be important, however, to intervene on the technical background of the PA (with a particular reference to the legal aspects linked to the PPP schemes) and on the capacity of evaluation of business plans on an economic-financial point of view. It would be helpful to establish a planning fund, also valid on European funds, in order to support Municipalities (especially small-sized ones) in the implementation of feasibility studies, which consent to bring the projects to the market. Moreover, the creation of an equity fund to capitalize the ESCOs, supporting the creation of private capitals, and a guarantee fund for the bankruptcy of public subjects.

**Renzo Tomellini, manager of a part of the research and innovation programme**, explained to local administrators that, within the European research, there is a big package of funds, represented by the 2020 Horizon framework programme. Europe leaders set smart, sustainable and inclusive growth as a EU target, in the document 2020 Europe. If 2020 Europe is the political target for the EU action, 2020 Horizon is the

research and development programme to obtain the technological and innovative tools aimed at achieving those objectives. The framework has a EUR 80 billion funding and a multiannual programme for 7 years. This means that it is not necessary to discuss the budget every year. Even during the financial crack period (2008) European leaders decided not to cut the resources of the programme from the previous exercise, as research and innovation are not an expense, they are an investment in our future. The programme is organized according to three points:

1. Scientific research at the highest level
2. Research to support industrial competitiveness
3. Innovation and research in the socio-economic field.

The third point finances projects that meet the needs of communities, people, territory, Europe as a whole and of Europe made of individual citizens. The programme finances projects that create new solutions which can be multiplied and diffused in Europe, or local projects for which there is the need for competences from all the EU Countries (for example the Mediterranean anemia, which mainly involves Sardinia but which requires competences at a European level). Therefore, the programme finances projects that involve an issue of general interest, or an issue of local interest for which it is important to bring together more competences at a European level. As it deals with socio-economic objectives, the programme is divided into chapters called Societal Challenges. That is because it is up to the civil society to establish the objective of research, and to the researchers to find the technologies to answer and achieve the results set by society. The partnerships in research projects are as wide as possible, and they include the industry that has to develop the technology, the university which has to provide the knowledge needed to support this technology, but also the local authority which will use this technology. Examples of this are given by the use of CO<sub>2</sub> for greenhouses, the systems for water purification, a system for field irrigation that takes into account the depth of the soil. Local authorities are invited to take part as users of the research, who will test new technologies. The aim of the framework programme is to promote and develop NEW solutions, that are not on the market yet, taking a step further from the state of the art.

The second part of the conference focused on the debate and the comparison of local experiences with interventions by **Giovanni Caruano, Assessor of the Municipality of Vittoria, Salvatore Orlando, President of the city council of Palermo, Mauro Contini, Mayor of Quartu, Teresa Rocatis Nielsen, planning manager of the Municipality of Skive, Thomas Malmstedt, Manager of the Municipality of Arvika** (for the interventions, see the slides posted on the project's website).

On the afternoon of the 23<sup>rd</sup>, at the representative seat of the Sardinia Region, the website of the ENPCOM project was presented. The website, subject to the normative regulating the publishing of websites linked to EU funded projects, contains the obligatory sections in which the contents and the materials produced in the project are to be posted. The website represents an important window for all the Municipalities, which favours the circulation and the diffusion of specific materials and promotes the strengthening of the cooperation between partners. It needs the active participation of all the partners for the editing and the signaling of contents and for the diffusion of the results.

## **24<sup>th</sup> June 2014**

On the 24<sup>th</sup> of June, at the European Commission, delegates took part in the conference for the EUSEW 2014: *Covenant of Mayors, Smart Cities & Communities, and ManagEnergy at the service of energy users – European commission-DG Energy, executive agency for small and medium-sized enterprises, and directly connected with the EU institutions.*

In the afternoon, at the office of Region of Sardinia, the works were concluded. In particular, we discussed the possibility of presenting further planning projects and we tried to develop some, according to the announcements of the 2020 Horizon programme, illustrated on the morning of 23<sup>rd</sup> of June. We also talked about the place where the last event will be held. On this matter, the Municipality of Skive (Denmark) and the Municipality of Quartu (Italy) have given their availability