

# **II ENPCOM MEETING**

## **Models of interaction between the public and private sector in transport and housing**

Financial tools in energy efficiency projects  
under PPP schemes

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Sinloc is one of the main and most active companies in the field of local development projects in Public Private Partnership (PPP).

Sinloc shareholders are ten Banking Foundations and «Cassa Depositi e Prestiti». Thanks to the strong partnership with its shareholders, Sinloc is able to convey amounts of resources to local projects and initiatives which can add value and competitiveness to the territory.

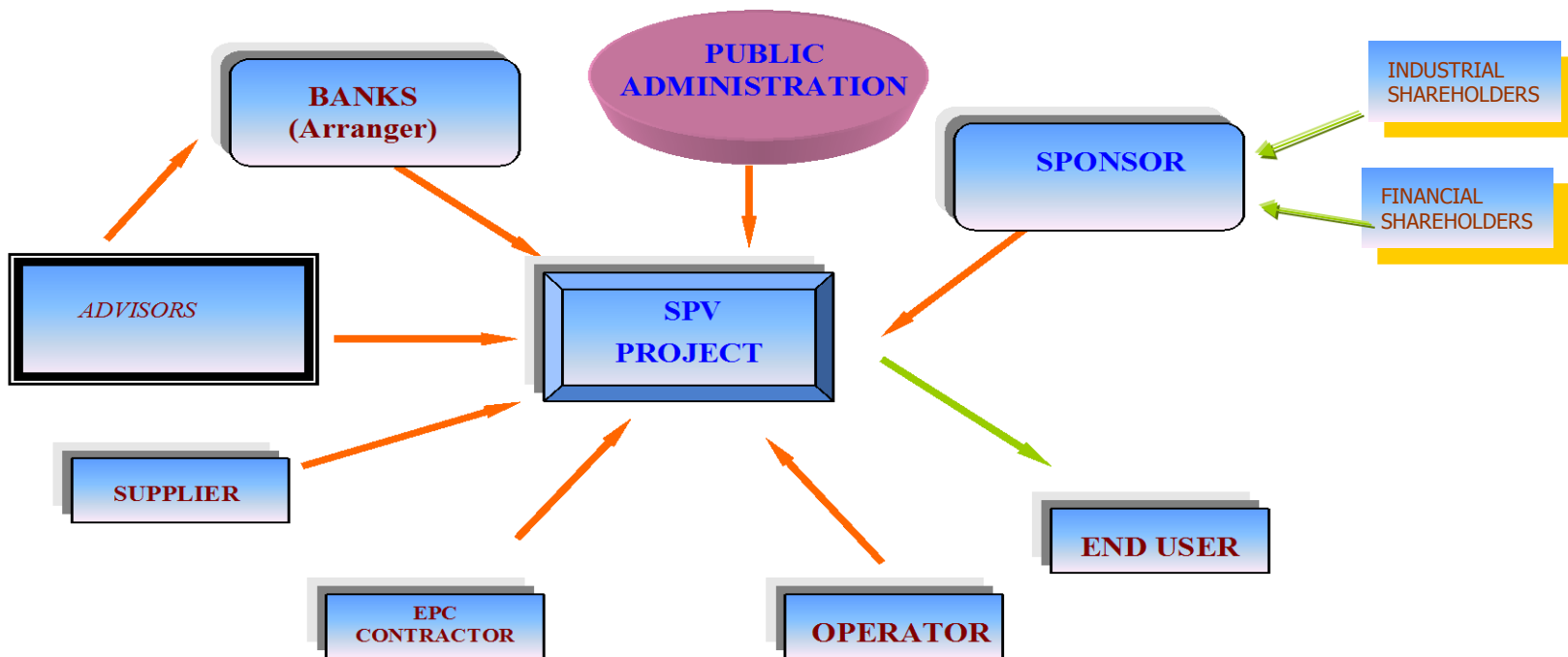
## Services provided:

- advisory for public entities and private operators on PPP projects
- financial arrangements
- equity investment
- advisory to banking foundations

In its Green Paper on PPPs, the European Commission recognized that the following elements normally characterize a PPP:

- The relatively **long duration of the relationship**, involving cooperation between the public partner and the private partner on different aspects of a planned project (...);
- The method of **funding the project**, in part **from the private sector**, sometimes by means of complex arrangements between the various players (...);
- The **important role of the economic operator**, who participates at different stages in the project (design, completion, implementation, funding) (...);
- The **distribution of risks** between the public partner and the private partner, to whom the risks generally borne by the public sector are transferred (...).

# STRUCTURE OF PPP PROJECT



In addition to the technical and legal feasibility of projects, PPP scheme can be applied only if there is an advantage for both:

## PUBLIC PARTNERS

The public partners should evaluate that:

- The infrastructure creates an economic benefit for the community
- The PPP alternative is preferable vs traditional procurement



COST BENEFIT ANALISYS  
VALUE FOR MONEY

## PRIVATE PARTNERS

The private partners verify that:

- The project is economically sustainable
- The project is financially sustainable
- The risk/return is in line with their expectations



NPV  
DSCR  
IRR

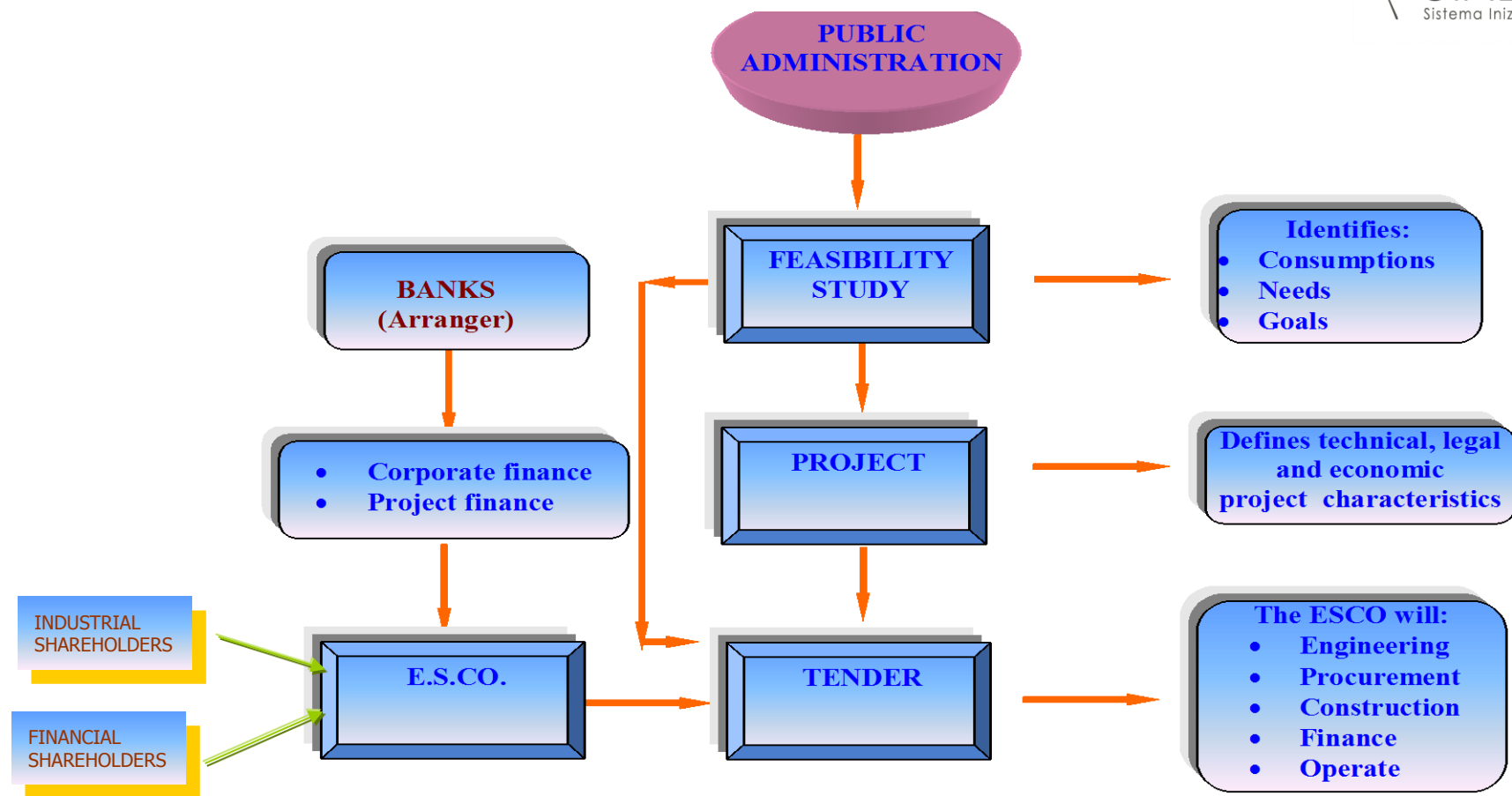
Energy efficiency (EE) is one of the fundamental points of the European energy policy.

Together with the increase of REs and the reduction of CO2 emission, EE represents the main targets of the Europe 2020 Strategy for smart, sustainable and inclusive growth adopted by the European Council in June 2010.

Buildings are one of the main “consumers” of energy: they account for approximately 40% of final energy consumptions in Europe.

For public buildings, the Commission Directive 2012/27/UE enforces the public sector to lead by example by renovating 3% of buildings owned and occupied by the central governments starting from 01 January 2014 and by including energy efficiency considerations in public procurement, so as to purchase energy efficient buildings, products and services.

# PPP PROJECT FOR EE PROJECTS



The feasibility study, in addition to verify that the project creates value for the community, should also evaluate if the investment is economically and financially viable, or if a public contribution is required to reach those parameters.

$$\text{IRR} = f(\text{Investments, Savings, Timing, Financial Market})$$

A Project Finance structure is characterised by the capacity of the project to generate **cash flows capable of reimbursing and remunerating the sources of financing.**

The main guarantee for the capital injected is the project itself. Three are the main characteristics of a PF structure:

- **Ring fencing:** the project is isolated by the other activities of the shareholders,
- **Risk allocation:** risks are allocated to the partner that can better manage it,
- **Security package:** a set of contracts that defines rights and obligations of each part involved in the project.



# FINANCIAL TOOLS AVAILABLE FOR EE PROJECTS

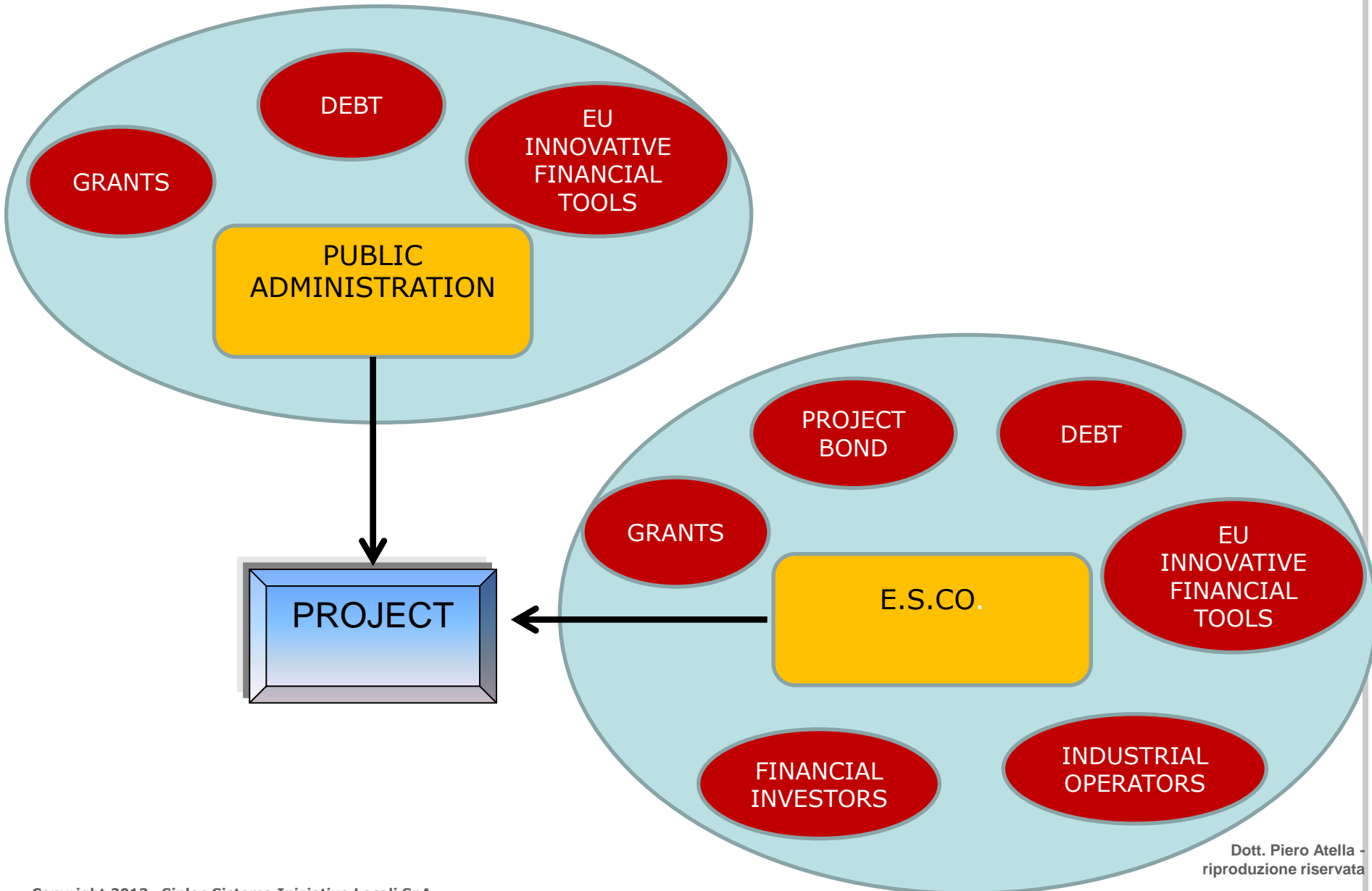
EE projects can be financed both with private and/or public funds, depending on their capacity to remunerate the resources invested.

The source of financing depends mainly on the capacity of projects to produce savings that can repay the resources injected. Indeed, there are some projects that produce savings that can repay in the short/medium term the investment made, while other projects require long term to reach the pay back.

SOURCE OF FINANCING	PAY BACK	EE PROJECT
Public grants	Long term	Building insulation
Debt from public resources (i.e. Jessica Fund)	Medium/long term	Heavy investments in public lighting
Banking financing	Short/medium term	CCHP, public lighting
Mezzanine finance	Short/medium term	CCHP, public lighting
Private equity funds	Short/medium term	CCHP, public lighting
Infrastructure funds	Medium/long term	Heavy investments in public lighting

All the above mentioned **sources of financing can be mixed** in one project trying to match the different components of the project (i.e. change of lamps, CCHP, insulation, etc.)

# FINANCIAL TOOLS AVAILABLE FOR EE PROJECTS



# SWOT ANALYSIS OF EE PROJECTS FOR PUBLIC AUTHORITIES

STRENGTH	WEAKNESSES
<ul style="list-style-type: none"><li>• Easy to design</li><li>• Fast to implement</li><li>• Immediate and long lasting reduction of operating costs</li></ul>	<ul style="list-style-type: none"><li>• Lack of specific skills in house</li><li>• PA budget constraints for feasibility studies and project implementation</li><li>• Low capitalization of ESCOs</li><li>• Long tender process</li></ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"><li>• Availability of public financing also from EU</li><li>• PPP structure</li><li>• Best practices</li></ul>	<ul style="list-style-type: none"><li>• Change of legislation</li><li>• Fast technology improvement</li><li>• Availability of banking financing</li></ul>

# CONCLUSIONS AND PROPOSALS

The EE sector represents one of the industry that can **help the increase of the European economy in the short run**, in addition to create **environmental and economic benefits for the long period**. But, in order to do so, it is necessary to work on four main points.

- **TRAINING THE PA**
  - Three are the main training areas for the PA:
    - Technical competences
    - Legal skills (mainly connected to PPP procedures)
    - Economical skills (evaluation of business plans).
  
- **ADVISORY TO FEASIBILITY STUDIES AND PROJECT DESIGN**
  - **FS&E Fund**: it is necessary to make available to local authorities funds to develop feasibility studies and projects (technical, legal and financial), with a premium to projects that are implemented.
  
- **CAPITALIZATION OF E.S.CO.**
  - An **Equity Fund** focused on EE projects and ESCO will help the growth of the sector and the development of PPP projects. An higher capitalization of ESCO will also improve their capacity to raise funds from the banking system
  
- **REDUCTION OF PROJECT RISKS**
  - Nowadays the PA represents an important market but in perceived with an high risk, mainly from the banking system. An **guarantee fund** that would absorb such risk, would reduce the cost of projects and facilitate banking financing.

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