



## *eceee pre-conference workshop: Mind the Gap – Financing industrial efficiency*

**Date: 11 June 2018**

This workshop was sponsored by the TrustEE project ([www.trust-ee.eu](http://www.trust-ee.eu)). Over 50 individuals participated in the pre-conference event, which was held on 11 June 2018 in advance of the eceee Industrial Efficiency Conference in Berlin.

### **Introduction**

The purpose of the event can be summed up in the working title: **Financing Industrial Energy Efficiency – Mind The Gap**. The gap in question lies between the asset owner/manager (i.e., the industrial facility) who is positioned and willing to make energy efficiency improvements, and affordable financing of said improvements. This gap has been addressed but it has not been removed, at least not satisfactorily based on available evidence.

A growing body of research shows that energy efficiency investments with a payback period of longer than 2-3 years typically are not implemented based on the financial case alone. These projects do not proceed despite the fact that there is a promising investment opportunity, and there are investors willing to invest in longer-term investments. If the projects are implemented, the improvements typically fulfil another purpose such as improved productivity or quality.

A panel of experts including investors/investment advisors, intermediaries and industry representatives participated to lead discussions and define the financing gap and solutions. Hughes Belin, a professional facilitator from Brussels, moderated.

### **Discussion of Gaps**

The TrustEE presentation, panellists and audience defined the **financing related gaps** as primarily affecting small and medium enterprises and smaller scale projects (less than €5 million). Some gaps can even impact larger corporations. These include:

- **Credit risks** of the industrial owner/asset owner (SMEs).
- **Understanding, attracting, blending and managing the many different types of financing** is difficult. Lack of financial competence/skills especially among SMEs.
- **Choice and application of financial metrics**: When to use what financial metrics for what purpose requires expertise and management time. Choice of metrics impacts project selection e.g., simple payback period versus time-based metrics like Internal Rate of Return (IRR). The financial competence required to use these metrics appropriately is high.
- **Line of credit limitations for suppliers/project developers** limit the number of projects, especially longer payback period projects, which smaller suppliers can offer without exceeding these lines of credit.
- **Aggregation and standardisation to increase scale of investment** is critical from an investor and bank perspective. Standardised processes, standard contracts, and documentation etc must be developed and applied. Several initiatives are working on these issues. The level of standardization achievable in the industrial sector may though be



limited compared with e.g., the renewables sector given the wide range and variety of processes, technologies and available solutions.

- **Guarantee issues** especially affecting SMEs with innovative technologies and new solutions that lack a proven energy savings track record. This can drive up the cost of financing and be prohibitive.
- **Project identification, timing, and preparation:** Investors and banks have funds. However, well-developed projects with a clear and well-documented business case are not forthcoming, especially in time to finance efficiency during otherwise planned renovations or production shutdown cycles.

The panellists and audience raised other critical gaps, which are not directly related to finance but can affect industrial project development or financing. They include:

- **Energy efficiency is a low priority:** Energy is a small part of production costs and energy projects must compete against other projects for financing. Energy efficiency is not therefore viewed as strategic.
- **Industry motivations and drivers:** This area is related to the low priority of energy. Understanding the core business drivers, and different motivations of individuals and business units is a critical need.
- **Capacity:** Related to the low priority of energy, SMEs and even larger firms have limited time/resources to devote to project development and to build awareness about energy impacts in their organisations.
- **Skill gaps across the supply chain:** There are a limited number of qualified energy auditors and project developers with industrial process engineering expertise. Energy auditors often miss or ignore process efficiency opportunities, and heating related opportunities. Marketing and finance skills are needed for energy auditors, project developers.
- **“Cream skimming”:** The easy projects with short simple payback (e.g., lighting) are selected at the expense of more holistic projects that cover several systems or measures.
- **Risk, risk perception and risk management** as it pertains to changing or implementing measures on industrial processes. Issues around avoiding production stoppages or affecting production negatively.
- **Policy and regulation:** At the EU level gaps include the need to strengthen Article 8 of the EED to make sure that energy audits encompass process-heating systems. Regulatory/market mechanisms to ensure that recommendations from audits are implemented are also needed. Ensuring that efficiency first is built in to policy instruments, including access to public financing instruments for clean energy, is important. New instruments that bring additional actors to the market, such as white certificate schemes based on shared opportunities and incentives, are needed and have to be set on a stable regulatory framework. And, some Member States are actively trying to weaken efficiency policy and this is a challenge.

## Discussion of Solutions

The financial related solutions include:

- New financial models and instruments such as TrustEE and others that address credit risk and credit lines of SMEs (through balance sheet financing, guarantees and other vehicles)



- Creating financial facilities and vehicles such as TrustEE and others that can bundle projects, access capital markets through securitisation, and/or can help aggregate or manage different streams of financing
- Efficiency first principle! Ensuring that efficiency products and services are included in and eligible for public clean energy funding

Solutions to other gaps include:

- **“Flip the script” (change the message):** Efficiency is not an end, nor a leading motivator or driver for projects. The focus must be on the main business drivers and motivations. Solutions raised include:
  - Changing the sales language, focus on main business drivers including terms such as “resource productivity”,
  - Partnerships: Identify strategic partners that energy professionals can work with to access decision makers and processes (e.g., Lean consultants, etc)
  - Using existing business networks within sectors to identify leading drivers, sales arguments, training opportunities and champions
  - Develop well-designed sales/pitching schemes for different sectors. Central information and evidence such as good case studies, evidence and examples can speak to drivers and build the business case.
- **Timing, timing, timing – be ready with solutions!**
  - When is the industrial owner already planning a renovation/production stoppage? How can we anticipate these times? When there are natural work stoppages where training, project development, or financing assistance can lead to an investment?
  - Who are our ambassadors or “white knights” in the companies that can inform us of good timing, and are ready and willing to work on efficiency projects?
- **Training, awareness building and improving communication** across groups including:
  - Energy management workshops that include diverse groups and business units to build communications and understanding
  - Energy Managers with formal responsibilities to promote energy efficiency
  - Encouraging certification of Energy Management Systems according to ISO 50001 scheme for long term approach to energy
  - Communication tools – a Board level executive document following energy audits, that is provided with a summary and key results, instead of simply a lengthy technical audit
  - New training academies and initiatives devoted
- **Look to successes in the renewables industry and translatable lessons even if industrial processes are highly varied**
  - RE projects worked with via IRR, reduced transaction costs, lowering risks with relatively high standardisation
  - Good projections for wind yields have improved dramatically
  - Scale of investment is 200-300 M per park so the scale is attractive
  - Replicable processes
  - Quality orientation
  - O&M contracts guaranteeing availability
- **Sharing replicable projects and applications**



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- Some equipment and system solutions are replicable. E.g., bakeries. Expose them and use these to build scale.
- **Changes in policy and regulation/business case development**
  - Strengthen energy audits so that industrial processes are covered by competent auditors, and that recommendations are implemented
  - White certificate schemes successful in bringing new and skilled actors into market (Italy)
  - Policy pressure and lobbying to expose Member states that would weaken industrial efficiency policy