

CITYnvest capacity building workshop

Innovative financial mechanisms for the energy efficiency projects in Latvia

Minutes

Focus country: Latvia, Date and place: 10.05.2017, Riga

After the welcoming words of Aivars Okmanis, Chairman of LALRG Committee on Technical Issues, Mr Andris Akermanis, LALRG adviser on energy issues, opened the discussion reminding this is the second workshop in Latvia of CITYnvest. Mr Akermanis noticed that progress has been done even if a lot is still ahead: the gas market will be opened from July 2017, with new gas prices to be negotiated between gas suppliers and heating companies, and not anymore regulated by gas utility regulators.; he also noticed that in Latvia there are already some funding opportunities via public funds. It is important to move towards ESCO model, moving ahead on implementation and collecting more information and experience. However there are still 1000 buildings without heating and Latvia needs to find alternative financial solutions, working together with ALTUM and gaining experience from other countries. Still, what is more hard to change is the mind set of people.

Ms Maria Giovanna Zamburlini, CITYnvest thanked LALRG for their support in the organization of the second CITYnvest workshop. She underlined this was an opportunity for encouraging cooperation and linking different actors together and ensuring long-term engagement in energy retrofiting. She reminded that CITYnvest is a EU funded project promoting innovative financial models for energy retrofiting in public buildings. CITYnvest has been collecting, analyzing and benchmarking 26 cases studies in Europe: identified solutions have been implemented in three pilot regions and results disseminated in 10 focus countries, including Latvia.

The common business model is to have a PDU, a Project Delivery Unit implementing the project mandated via the Program Authority Unit and assuming or not the financial risks. She reminded that the following presentation from RE:FIT will show their experience with a PDU works.

She mentioned the progress of CITYnvest since last year, including the adoption of Action Plans in the different pilot regions as well as application for new funding for public building retrofiting (ELENA funding and Project Development Assistance). She concluded her presentation inviting Latvian representatives to send material to populate CITYnvest with materials for local authorities for energy efficiency building retrofiting.

Mr Ingus Salmiņš, AFI "ALTUM" reminded that the role of ALTUM is to work as competent center and national financial institution supporting local authorities to improve energy efficiency in multi-apartment buildings. ALTUM reminded the low quality of the projects proposals submitted to them and also lack of number of project managers. He also referred to the changing regulation in. He referred to an informative campaign provided by the governments and training session organized for project managers. It is going soon to be possible to give loans to ESCO companies. ALTUM aims at not exceeding 10 days for application of funding for project of building retrofiting.

He brought the positive example of Liepaja municipality: a lot of preparation work was done, communication also has improved, even if there is still progress to be done (i.e. use of balance sheets in project documentation). The coming months of summer will be very intense for renovation.

ALTUM also announced a technical workshop every year in Spring, including various agencies, last year with fruitful discussion and reaching the conclusion that it is difficult to allocate funding before construction but this is improving and this does not require any correction.

ALTUM also referred to the guidance material already produced, in particular the so called "18 schemes": as the grant is applicable to all apartment owners, this guidance is still helping new applications in joining the project and also to get training as soon as the project application has been approved.

Mr Toms Cīrulis, project manager of SIA "Liepājas namu apsaimniekotājs" (housing management company) presented the renovation program and financing mechanisms used in the city of Liepāja. Liepāja is a city of 700 000 inhabitants and there are 1400 residential buildings, with 160 ml for renovation of 1000 building. The program has been focusing both on public and private buildings, bringing solutions both in terms of insulation and larger retrofitting actions. Heating system monitoring has been introduced in the renovated building, and they are pushing for adopting horizontal heating as the most efficient. He underlined that the current problem is with public procurement as the law is very strict and the importance to spend time communicating for encouraging renovation.

A specific aspect that was noticed was that ALTUM and loan opportunities for flat owners are not flexible; all available financial instrument share more or less same scheme while each local government has specific procedure, therefore the financial instruments should be tailor-made. Also application for projects has become more expensive: back in 2010 it was easy to have project application for a budget of 1000 but now it is currently 10 000 euros.

It was also added that economic situation and income of people should be taken into account; still a major issue is that the Return on Investment is not high enough and still nobody wants to invest a lot in an apartment. What really matters is the price of the apartment, cost of renovation in cities is the same but the added value is very different depending on the area, the city. Therefore sometimes renovation is only partially needed, like heating insulation. As well funding should have been used for renovation of problematic buildings/ need to check in each building what is the issue of loss of heating.

Supply companies-ESCO will need to think how to cover the costs of management and the variable costs, the second being related to heating; the risk is that the management costs will be shared among all owners of multi building apartments or the owners participating to the project will need to pay later.

Mr Harijs Švarcs, Latvian Baltic Energy Efficiency Facility LABEEF, as ALTUM, referred to the current revision of regulation lead by the Ministry of Economy, which will probably be approved by the end of May. This revision should include ESCO as part of the retrofit program; however the renovation program should start in July and probably it will be too late to include ESCO for this renovation program.

Mr **Švarcs** referred to ESCO and EPC model where the renovation process has to be made by ESCO company where energy efficiency should pay back: issues related to this model is that benefits for the ESCO are not that higher and the pay-back period is kept for 20 years. Burden and risk taken by ESCO companies and people have to take part of it results are good but risks about the neighbors don't pay and the contracts are signed by all, but the principle is very good.

LABEEF tried to fix problems for ESCO companies –need a lot of equities for ESCO as no ESCO could at the moment assume renovation of hundreds of buildings, the question is what to do with money frozen for 20 years and help ESCO be more flexible. For this reason, LABEEF provides solutions in terms of

security and guarantee; standardized energy performance contracts, making cheaper and lower the interest rates from financial institutions for EPC contracts.

LABEEF has also been producing draft technical guidelines to provide ESCO with more money and funding providers and ESCO companies are not that rich for taking 20 years of the risks; to give stability, signed contracts and hoping that we can return this money to ESCO company, this is the way as LABEEF works; as LABEEF sign the agreement and contract will be handed over and ESCO signed the contract with beneficiary. Quite detailed methodology to calculate EE at LABEEF inside and outside in the buildings and this is information we can provide and how to do level temperatures.

Liability agreement with three parties ESCO aware that funds will come back; talk to ministry of economic as LABEEF needs support to financial and mechanism from ALTUM to start this process and to use this mechanism for financing where ESCO gets money from funding's. ALTUM see the opportunity to support ESCO companies and international institutions are interested in large projects; last April the project SUNSHINE started to support local government in renovation and LABEEF invited not only residential sector, municipalities but also liability company. the goal is to make this contract for local government attracting for investment and guaranteeing savings.

SUNSHINE is an interesting project local governments and institutions are interested to show this to other local government and have discuss this in a separate seminar and get this information more for applications.

Mr Andrejs Semjonovs, representing the heating company SIA "Salaspils siltums operating in Salaspils. He explained that this company is providing heating of multi apartments for a total of 146 multi apartment buildings done with participations of housing managers companies and the engagement of participation of local governments.

They did pilot with 2015 and information will start and local government delegated to them to engage in the renovation program; they organised meeting for apartment owners and inform them how to isolate energy efficiency and provide with consultation and keen to provide info.

When it is considered inappropriate, people can be scared. Energy saving after renovation, not only saving heat and reducing the energy consumption with replacement of windows; complete renovation includes replacement of utilities network and low energy facilities when you have improvement of ventilation system, we need best solutions for EE buildings.

Main benefits are related to the improvement of live conditions and comfort and fresh air and good climate (not too dry or too wet); 45% decrease of heating. Not least renovation helps and facilitates the further maintenance of the buildings and management company or association. Renovate buildings will be more efficient than new buildings.

Ms Daiva Matoniene, member of Lithuanian delegation to the CoR, Former Lithuanian Vice-Minister for the Environment and Member of Šiauliai City Council presented the situation in Lithuania. Similarities with Latvia in number and characteristics of buildings that need renovation in LT (38,000 multifamily buildings). LT has adopted housing strategy in 2004; with a main goal to increase energy efficiency in multi apartment buildings. The success in building renovation in Lithuania has been achieved thanks to investment projects based on the energy efficiency programs approved by the municipalities. Projects are implemented by the Programme administrator appointed by the municipality; loan is taken by the Programme administrator responsible for the implementation and financial management. This program has resulted in huge success, achieving in three years what was not achieved in 30 years with 1595 building renovated in three years (2013-2015) and still 2000 under

the process of being renovated, with huge percentage of energy consumption reduction (between 65-79%). The program has succeeded thanks to real cooperation with municipalities, financial resources and regulation changes. Very important to involve in this process the heating companies.

She mentioned the importance of changes at legislation level: while in Latvia is the Minister of Economy, in Lithuania is the Ministry of the Environment in charge of building renovation strategy, cooperating with other ministries including financing and energy. With the new procedure, they managed to make the time for procurement for renovation down to 10 days. Municipalities can do their own procurements or go by the centralized system, the second being much faster. Ms Matoniene recommended the importance of standardized contracts to reduce long procedures.

Financial instruments are needed to attract private investments and multiplying them. It is also important to guarantee continuity of instruments independently of political elections, to avoid lack of confidence from financial institutions. In Lithuania JESSICA funds for the first time for multi apartment buildings renovation: local urban development funds have been created and since 2013 five banks are providing loans for housing. The number of banks willing to participate to the program is increasing. The signature with EIB takes 2 years and also EBRD and long procedures which is not good, better to improve these procedures.

Technical support is very important in procurement, being provided by an agency owned by the environment ministry. They do participate in providing housing information and supporting design of investment projects. They take all responsibilities for quality of the project; and they support from the beginning tot the end. This brings down the cost of public procurement (approx. 300 euros)

After renovating, we are saving 40% or 50% being translated concretely in -10% in bills to the house owner.

The next program, Jessica II (2014-2020) will guarantee the existence of project pipeline, of the government program and attract more private investment. As well, there will be a guarantee financial instrument to attract additional funds from private sources (expected leverage 1:5)

Mr Angelos Vouros , RE:FIT London Project Manager presented the objective and success of the experience of London renovation programm. Aiming to achieve the Mayor's targets to reduce London's CO2 emissions by 2025 and contribute to the UK's 2020 and 2050 targets, the GLA has developed a number of energy retrofiring schemes to contribute to that goal.

RE:FIT was developed to overcome three key barriers that were preventing the retrofit of non-domestic public sector buildings from happening at the required rate and scale:

1. a lack of capacity and expertise within public sector organisations to identify and implement projects, and access finance
 2. long and complex procurement processes
 3. risks associated with investing money with long term paybacks and no savings guarantees
- RE:FIT's highly skilled and experienced Programme Delivery Unit (PDU) provide free-of-charge support to public sector organisations, to help them get energy efficiency retrofit projects and programmes up, running and successfully implemented.
 - RE:FIT PDU provides free benchmarking services to the participating organisations. The benchmarking sets the criteria to support business case studies and guides the tendering criteria
 - There are a range of funning options to choose from to fund a RE:FIT project. Own funds, direct borrowing from SALIX with 0% interest, LEEF with lower interest from commercial banks or a combination of all.

- All savings are guaranteed. If a shortfall of energy savings is realised during the M&V stage, then the ESCo must resolve the reduced energy performance by either adding in additional measures to meet their guarantee or paying the client the difference.

In summary, the main benefits of the programme are:

- The client keeps 100% of the energy savings generated
- Free consultancy support from the skilled Programme Delivery Unit
- Guaranteed savings from the RE:FIT service providers
- Open book pricing and commercial agreements
- Fully Official Journal of the European Union compliant fast-track procurement

Main conclusion:

- **Multiple flat buildings:** people have apartments privatized but not the entire building, creating obstacle for renovation. It is need to change mentality of people on energy efficiency retrofitting= > recommend to have more propaganda campaign to support people to make renovation.
- **ESCO model:** Latvia is progressively moving towards ESCO model, still need political and financial support for it; recommend to support ESCO in being more flexible in financial investment.
- **Construction quality:** during construction process, there should be strict monitoring of construction quality and adherence to the energy efficiency requirements of building envelope – there should be strict control by state authorities
- **Public Procurement:** it is recommend to modify public procurement as the law is very strict => introducing standardize procedures and contract to reduce time of implementation of the project; technical support is very important in procurement.
- **EU financial support:** the signature with EIB takes 2 years and also EBRD and long procedures=>recommend to improve these procedures
- **Latvian Financial support:** need to have flexible and tailor-made financial instruments provided by ALTUM and loan opportunities for flat owners; often financial resources are available. Financial instruments are needed to attract private investments and multiplying them. Important to involve different stakeholders, including heating companies
- **Renovation:** sometimes renovation is only partially needed, like heating insulation=>recommend to check and find solution tailored for each building (assess the loss of heating; Assess the most problematic buildings)
- **Heat suppliers:** In the context of liberalization of the natural gas market it is essential for heat suppliers to make procurements and conclude agreements of supply of natural gas in rapid manner. **Electricity market and policy of electricity tariffs:** solutions are needed:(1) how to decrease electricity transmission costs for clients, (2) how to decrease the mandatory procurement component OIK (the compulsory “feed-in” component) in electricity rates in near and more distant future.
- **Housing policy issues:** to have a successful housing policy there is the need of (1) availability of public sector rental apartments; (2) conditions of state support regarding apartments