



D6.4 Market plan

Latvia



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Transparensense project

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1 Summary

This report aims at providing a plan to support the development of the EPC market in Latvia. The report focuses on actions needed to overcome market barriers identified in another work package of the Transparensense project. Those barriers have been analysed and described in 20 country reports and one EU report on identified barriers and success factors for EPC project implementation.

This market plan consists of the short overview of the Latvian EPC market where latest achievements are described and the main barriers are presented. Eight of these barriers are summarised and explained.

The Next step was carried out by the stakeholder analysis. The main groups were prioritized in order of importance, both the power and the interest of each stakeholder group were considered, and short descriptions were provided.

Based on the stakeholders' analysis and the identified market barriers, the action plan was provided for development of Latvian EPC market with concrete solutions for each barrier mentioning who should act and when.

2 Introduction: Transparensense and EPC Code of Conduct

The Transparensense project is financed by Intelligent Energy Europe, and has the main aim to increase the transparency and trustworthiness of EPC markets throughout Europe. With its twenty partners covering both mature and beginner EPC markets, the project has a great potential to develop and increase the European EPC market and thereby achieve substantial energy efficiency improvement.

The core action of the Transparensense project is to develop a European Code of Conduct for Energy Performance Contracting (EPC), which will be implemented in all the twenty participating countries. The Code of Conduct can be used by both ESCO:s, EPC clients and EPC facilitators. It identifies a set of EPC values (ethics) and principles of conduct (behaviour) to increase the transparency of the EPC markets and ensure the high quality of the energy services provided. The EPC Code of Conduct is a voluntary commitment and is not legally binding. Its ethics regime is integrity based and unenforceable. However, acts in violation of the EPC Code of Conduct may cause damage to the ESCOs' and clients' or facilitators' good name and may lead to corrective legal or disciplinary actions if initiated by the aggrieved party on the side of the ESCO or the customer.

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The EPC Code of Conduct represents fundamental mechanism for ensuring EPC professionalism. It is also an indicator of the quality requirements for new ESCOs entering the EPC market. Last but not least, the EPC Code of Conduct is a quality indicator for clients: what they should expect and require from suppliers of energy efficiency services and at the same time which principles they themselves should adhere to so that the EPC project is implemented to the satisfaction of all parties involved.

The Transparensense project started in April 2013 and will be completed in September 2015. The project brings together 20 European partners: Czech Republic (co-ordinator), United Kingdom, Slovenia, Germany, Sweden, Belgium, Austria, Bulgaria, Italy, Lithuania, Netherlands, Poland, Portugal, Slovakia, Spain, Greece, Hungary, Latvia, Denmark and Norway. The project has a budget of million 2.1 million € and is financed by Intelligent Energy Europe with co-funding from the project partners. For more information, please visit www.transparensense.eu.

3 Aims of the market plan

The aim of the market plan is to provide recommendations for action to support the progress of the EPC market and to promote the EPC code of conduct developed in the Transparensense project. The market plan also provides answers to Frequently Asked Questions (FAQs) regarding Energy Performance Contracting and the use of the Code of Conduct. The aim of the FAQs is to serve for ESCOs to help them in dialogue and promotion of EPC and Codes of Conduct to customers. Further information about Transparensense and Energy Performance Contracting can be found at the project website: www.transparensense.eu.

The main target group of the market plan is European ESCOs. However, the ESCOs may use the market plan in different ways depending on e.g. market maturity. Consequently, there may be several secondary target groups of the market plan. The market plan includes a stakeholder analysis to identify those secondary target groups.

4 Market overview

In this section, the EPC market in Latvia is summarised based on previous analyses in the Transparensense project (D2.4). The analysis includes information on the status of implementation of the EPC Code of Conduct, a summary of main barriers for EPC implementation in each country, and a stakeholder analysis that builds on previous work in the Transparensense project (D6.11).

The EPC market in Latvia can be considered underdeveloped, however there has been a slight growth (mainly in the residential sector) over the last three years (2011, 2012, 2013).

Currently there are fully renovated 14 multi-family buildings (MFBs). These MFBs have been deeply renovated based on EPCs. The funding in the form of subsidy was available for the implementation of energy efficiency measures through European Structural Funds.

As the JRC-IE report from 2010 states, only five companies were identified as ESCOs offering EPCs in 2009 with size of the market €1-1.5 million (at the moment around €2-3 million/year). As of 2013, nine companies were known to offer some kind of energy efficiency services in different sectors, six of which provides energy efficiency services in addition to their usual business activities (typically energy delivery or equipment/technology); and only three companies offer energy efficiency services and EPCs as their core business.

Data from the Transparensense survey indicates that two of the three ESCO respondents believe that the market for EPCs in Latvia had seen “little change” since 2010. The remaining one respondent believes that the market has seen “slight growth”. One third of the ESCO organisations surveyed confirmed that their EPC orders were increasing significantly, while the remaining indicated that their orders remained constant or falling significantly. This shows that there is a quite big uncertainty in the market.

The building types at which the EPCs were being carried out were only private residential buildings with the most common overall value of projects ranging between 200 000€ – 500 000€.

Clear trends are also visible when it comes to the characteristics of the contracts offered, for all of the respondents, a typical EPC addresses: energy efficiency, quality improvement measures, a lifetime of 16+ years, and a typical annual energy saving of more than 50%.

The general policy is based on the Energy End-use Efficiency Law, which transposed the EU directive on Energy End-Use Efficiency and Energy Services. However the regulatory framework for ESCOs and EPCs are currently poor and there is no particular regulation in place yet. At the moment, legislation is rather restrictive than supportive. Public budgeting

rules discourage savings. Public procurement law hinders the participation of ESCOs in tenders.

The Code of Conduct developed by the Transparensense project has been presented to few ESCOs as well as at the workshops/trainings organised within the Transparensense project.

The Code can be found at <http://www.transparensense.eu/lv/rcbas-kodeksi/nacionlais-rcbas-kodekss>.

4.1 Summary of EPC market barriers

Summary of the barriers (refer to D2.4) – identify the most important barriers hindering the development of the EPC market and select those which can be influenced by the marketing strategy by ESCOs (the number of prioritised barriers may vary from country to country). The main barriers are summarised in the table below.

Table 1. Summary of EPC market barriers

	Short description of barrier	Comments
Barrier 1	Raising affordable finance	Long-term commercial financing continues to be a major barrier because the banks are reluctant to lend against long-term energy efficiency projects. Banks misunderstand project implementing risks.
Barrier 2	Lack of equity	One of the key issues: As ESCO's are successful, their debts increase but banks judge companies for their risks. And this is reflected in the debt to equity ratio they require from the companies. So ESCOs, typically small, cannot borrow to further their business. However in the case of Service co., after completion, the payment risk lies with the client. Not the company.
Barrier 3	No policies in place for the development of the EPC market	The existing regulatory framework is more destructive than supportive for development of the EPC market.
Barrier 4	Public procurement rules	In the private sector there are no necessary public procurement rules for EPC projects, consequently increasing ESCOs' transaction costs. In the public sector there are no rules, procedures and criteria in place.
Barrier 5	Decision making in residential sector	The decision making process to agree to invest in the renovation projects of multi-family buildings is very incomplete.
Barrier 6	Complexity of the concept	There are no standardised documents or procedures for stakeholders to easily understand the concept and

		implement the projects.
Barrier 7	Lack of awareness	There is lack of awareness both at policy level and residents/owners level. In general, residents have a lack of comprehension in the field of energy efficiency.
Barrier 8	Mistrust from clients	As residents don't have knowledge about the EPCs they don't trust the model, there is a psychological barrier as well – potential clients are not ready to accept the idea that ESCOs will gain profit from implementing the EE measures in their property.

4.2 Stakeholder analysis

A stakeholder is defined as anyone who can effect or potentially will be affected by the project. For the SUNSHINE project each stakeholder group's power and interest have been scored with the numbers 1-5 (1=very low and 5=very high).

The stakeholder groups have been prioritized in order of importance; both the power and the interest of each stakeholder group were considered. Based on the scores of power levels and levels of interest, the stakeholders are attributed to one of the following groups (see Chart in Figure 1.2.1):

- Key Actors (KA): High power (level of power: 3-5), high interest (level of interest:3-5),
- Meet Their Needs (MTN): High power (level of power: 3-5), low interest (level of interest: 1-3),
- Show Consideration (SC): Low power (level of power: 1-3), high interest (level of interest: 3-5),
- Least Important (LI): Low power (level of power: 1-3), low interest (level of interest: 1-3)

The results are presented in Table 2 un Figure 1.

Table 2. Analysis of stakeholder groups in the Latvian EPC market

Stakeholder group	Number of stakeholders	Level of power (1-5)*	Level of interest (1-5)*	Power/interest group (KA, MTN, SC or LI)
ESCOs	9	2	5	SC
Policy makers	N/A	4.5	4-5	KA
House Maintenance Companies	± 600	3.5	3.5	KA
Commercial banks	27	3.5	1.5	MTN
Energy Companies	>60	4	1	MTN
Residents/Owners of MFB	~1.3M	5	1.2	MTN
EPC facilitators	1	1.5	5	SC
Local Energy Agencies	4	2	4	SC
ESCO Association	0	0.5	5	SC

The main stakeholders are summarised in Figure 1.

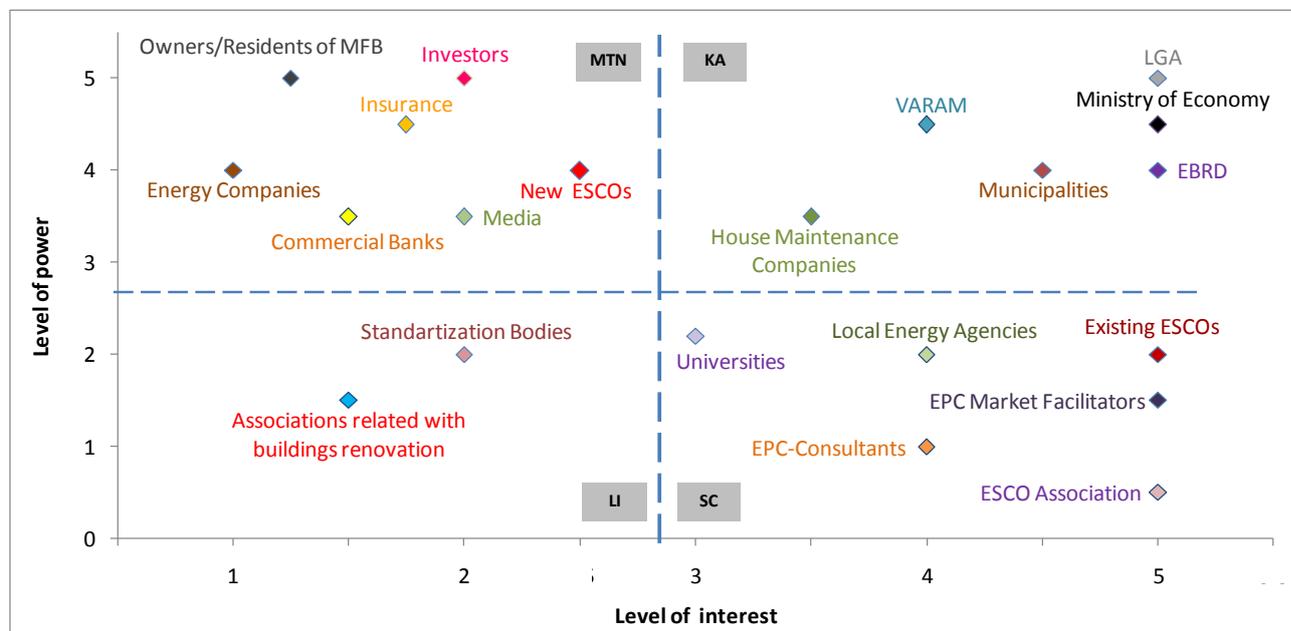


Figure 1.2.1. View of most important stakeholders considering their level of interest and level of power (LGA: Latvian Guarantee Agency, EBRD: European Bank for Reconstruction and Development, VARAM: Latvian Ministry of Environment and Regional Development)

Based on this analysis, the most highly **target groups** are:

- **Owner and residents of MFB:** The MFB owner and residents have a high level of power as every renovation project must be legally approved by a majority of residents. This group currently has a rather low level of interest, mainly due to a lack of information, distrust, and intolerance for risk regarding loans and financing;
- **Existing ESCO and new potential ESCOs:** Currently there are few ESCOs and the ESCO association is not active. The interest of these existing ESCOs is very high, but their level of power is limited as they do not have enough leverage for lobbying, nor resources for proper marketing activates. Conversely, potential new ESCOs (i.e. branches of existing construction and installation companies, house management companies, district heating companies, etc) currently have limited interest but a higher level of power;
- **Financial sector:** As the EPC market expands, this group will have an increased role in financing EPCs.

The most important **key actors** are:

- **LGA and Ministry of Economics:** At the top level, these two groups are very important for the successful development of the EPC market. Of particular value will

be LGA's support and participation in the development of innovative financial instruments. The Ministry of Economy is the responsible authority for managing structural funding for energy efficiency in Latvia;

- **EBRD:** Plays a key role as a/the development bank, providing high credibility and trust;
- **VARAM:** The Latvian Ministry of Environment and Regional Development is responsible for regional development and for reducing carbon dioxide emissions, in which energy savings accomplishes. Additionally, VARAM is responsible for public buildings;
- **Municipalities:** Municipalities have a key role to play in the market and several Latvian Municipalities have included energy efficiency in the residential sector as a high priority in their Sustainable Energy Action Plans. Local government officials play important roles as facilitators, informing their residents and enforcing local acts enhancing the renovation process;
- **House Maintenance Companies:** Most of MFBs in Latvia are served by house maintenance companies, which therefore have direct access to residents' data (i.e. level of bad debt and late payments) and knowledge of the current state of the buildings (i.e. energy data and technical conditions). Several house maintenance companies have already shown a high interest in EPC for deep renovation of MFBs.

5 Action plan for EPC market development

This section builds on the stakeholder analysis and identified market barriers and includes an action plan for overcoming the market barriers. The action plan is summarised in the table below.

Table 2. Overview of actions to overcome market barriers.

Action	Action associated with barrier no (see Table 1 above)	What should be done and how	Who should act	When should actions be taken	Comments
Action 1	ALL	Action plan for EPC market development	Policy makers	ASAP	Action plan for measures for the removal of legislative and administrative barriers, information dissemination, indication about financial instruments, issues regarding with public procurement both in private and public sector
Action 2	6, 7, 8	Government publishing best practice and standardised documents	Policy makers, EPC facilitators	ASAP	Government has to publish the standard EPC contracts and procedures like for M&V, signing EPC, tendering (public sector) etc.
Action 3	3, 7, 8	Lists of qualified ESCOs	Government, EPC facilitators	When market more advanced	Lists of qualified ESCO's to be established including technical and financial qualifications needed.
Action 4	6, 7, 8	Publish and advertise the Code of Conduct	Government, Transparensense, ESCOs	According to Transparensense process	Code of Conduct for EPC public available, on public websites as Ministry of Economics, Local municipalities, Latvian development agency
Action 5	1, 2, 6	Establishing forfeiting facility	Government, EPC facilitators, EBRD, commercial banks	2015	The development of Secondary Market is considered very important (see more info in D2.05. National Recommendations).
Action 6	5	Improving the decision making	Policy makers	ASAP	Currently building general assembly's are organised with a single convocation and every

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		process in the residential sector			decision shall be voted by 51% of the total house owner's number. It should be change to a double convocation system (see more info in D2.05. National Recommendations).
Action 7	7, 8	Raising awareness	Government, EPC facilitators, Energy Agencies, ESCOs, Costumers with exp.	Constantly	Calls for public and private initiatives for transferring know-how, training and networking in the developing EPC market at all levels (beneficiaries, intermediaries, banks, policy, municipal etc.)