

## **ENERGY PERFORMANCE CONTRACTS: A WIN-WIN SITUATION**

Energy Performance Contracts (EPC) are one of the options available to the final customer for achieving the maximum potential energy savings and efficiency, mainly in energy-intensive businesses or industrial facilities.

An EPC is signed between an Energy Service Provider (ESP), as the professionals of this industry are defined in the relevant EU Directive 2012/27/EU, and the final customer. The goal of the contract is to achieve savings in the consumption of energy required for the operation of a facility.



The increase of energy efficiency has been identified as a valuable means to address the challenges the EU is facing, such as the increased dependency from energy imports, the climate change and the financial crisis, whereas it is one of the main targets of the “Europe 2020 strategy” EU’s agenda for growth and employment.

At first, the ESP conducts an energy audit in the premises of the final customer, in order to ascertain the potential of energy efficiency to be

achieved by the implementation of energy efficiency measures and technologies. These measures may include the installation of new, energy efficient equipment and machinery in the premises (e.g. change of the air-conditioning/ heating system) so that less energy is consumed for the same operations, as well as, suggestions in relation to the installation of electricity generators in the premises, from renewable sources of energy. In case energy generation measures are to be applied, then on top of the EPC, an Energy Supply Contract (ESC) has to be signed between the parties, as well.

Should the parties agree on the terms of their cooperation, then they should move to the implementation of the proposed energy efficiency measures, pursuant to the EPC and/or of energy supply, pursuant to the relevant ESC.

Let's assume, for example, that an industrial facility/ business consumes energy worth of EUR 100.000 per annum. Following the energy audit, the ESP concludes that after the implementation of energy efficiency technologies, it would consume energy worth EUR 70.000. If the parties conclude the EPC, the savings of EUR 30.000 per annum shall be shared between the ESP and the final customer in a way which would allow the ESP to achieve the envisaged return on investment, and at the same time, the final customer to reduce his expenses in relation to the energy needs of his business.

The financing of the project is normally provided by the ESP, given that it has access to the required capital, whereas third party financing is also encouraged.

The final customer has, subject to the terms of the agreement, the right to purchase the machinery for a predefined amount pursuant to a time-schedule provided by the EPC.

The biggest advantage of the conclusion and performance of such an EPC is the fact that the envisaged energy efficiency is achieved without the final

customer being financially burdened for the introduction of the measures, as the cost of the equipment shall be included in the amounts which it would in any case pay for energy consumption.

It is evident that through such a cooperation the parties involved may gain several benefits. The ESP will gain financial benefits, as following the successful conclusion of the project it shall have secured the relevant return on its investment. The final customer, on the other hand, besides the energy savings, which shall have a direct positive impact to his financial situation, shall also acquire new equipment for his business, without using his own capital.

The biggest benefit, however, which extends to the society as a whole, is the fact that the reduction of the energy consumption results into less CO<sub>2</sub> omissions to the atmosphere, less dependency on primary sources of energy and generally contributes to a “cleaner” environment. Finally, the development of the ESP industry and the creation of jobs is one of the additional benefits of the application of this kind of contracts and services. There are, of course, potential risks to which the final customer is exposed. The quality of the services offered by the ESP is directly linked to the chances of success of the project, as there is always the risk of potential damage to the final customer’s facilities. Therefore, the technical capacity

and the experience of the ESP is one of the issues which the final customer must examine thoroughly, prior to the conclusion of any agreement.

Of equal importance are the terms of the contract; in light of the various matters regulated by the EPC, it is imperative that the final customer obtains adequate legal advice before signing an EPC, in order to be fully aware of the rights and obligations which both he and the EPS undertake pursuant thereto.

A properly drafted EPC may offer direct and substantial benefits to the final customer, the ESP, the society, as well as, the economy; this is demonstrated by the significance put on energy efficiency by the European Union, as one of the core pillars of its energy policy. The cooperation of final customers with competent professionals for the provision of energy services can contribute to the reduction of dependency on energy imports, as well as, to a positive impact on the environment, and, at the same time, provide financial benefits.

For more information on Energy Performance Contracts please contact us:

**Dr. K. Chrysostomides & Co. LLC**

1, Lampousas Street, 1095

Nicosia, Cyprus

Tel: +357-22777000,

Fax: +357-22779939

eMail: [info@chrysostomides.com.cy](mailto:info@chrysostomides.com.cy)