Boosting industrial energy efficiency investments through distributed internal fund in (b2b) Energy Efficiency Networks (EEN)

Panel 5: Business models and financing

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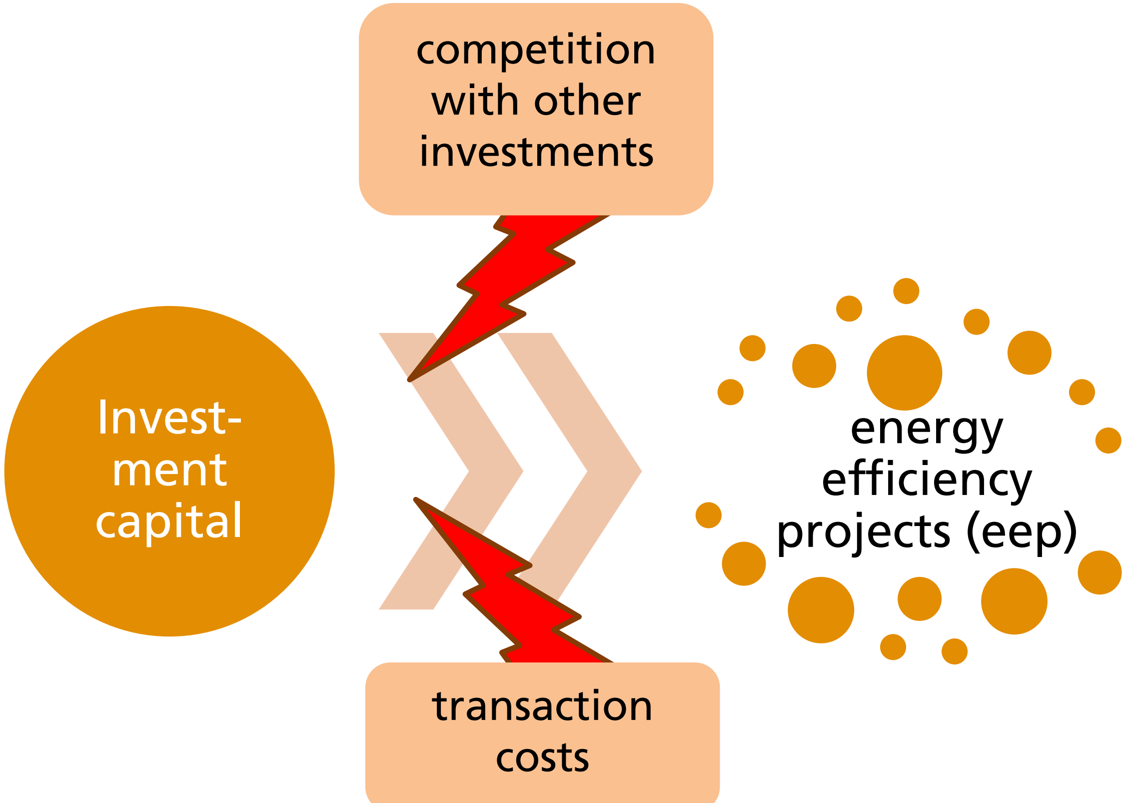
Both transaction costs and the competition with other investments (especially in production) affect the allocation of investment capital to energy efficiency projects.



➔ Are there existing approaches addressing those two obstacles?

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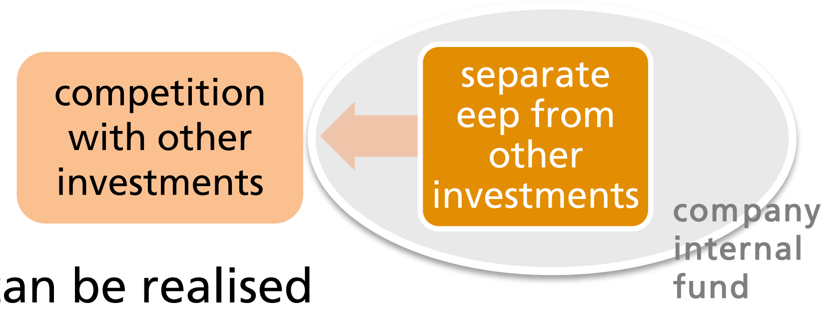
Company internal funds and Energy Efficiency Networks (EEN) address both obstacles.

- Obstacle "competition with other investments" can be reduced through company internal fund
  - Money of the fund only for energy efficiency investments
  - a wide range of project sizes and ROI (compensatory pricing possible) can be realised
  - savings flow back to the fund and allow further investments



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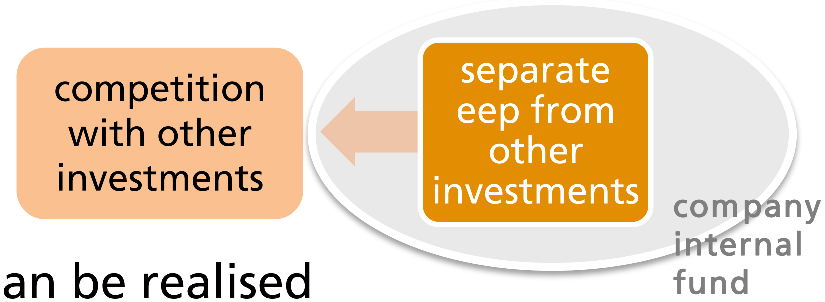
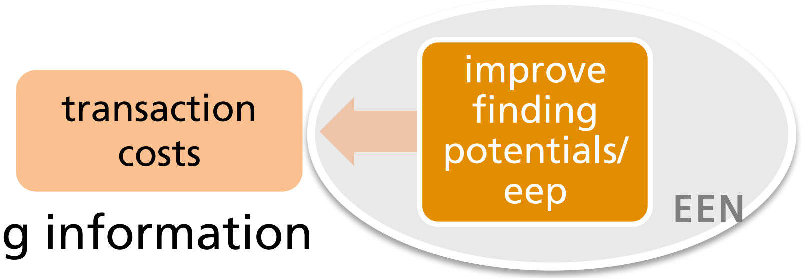


- Obstacle “transaction costs” can be reduced through Energy Efficiency Networks (EEN)
  - exchange of experience and information within EEN
  - reduces transaction costs for collecting information



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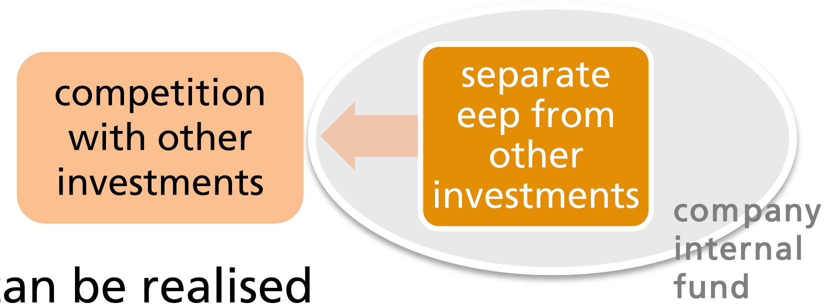

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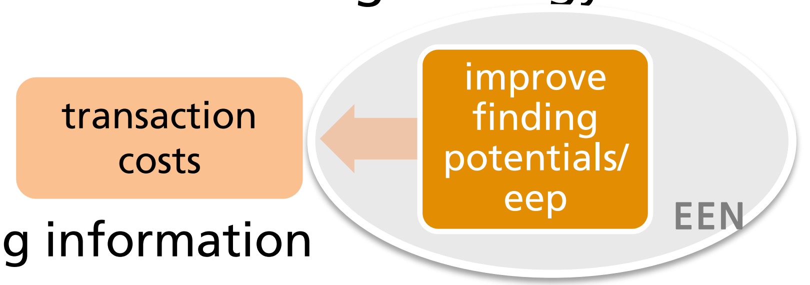

➔ To boost investments in energy efficiency there are additional transaction costs in financing them. How to address those?

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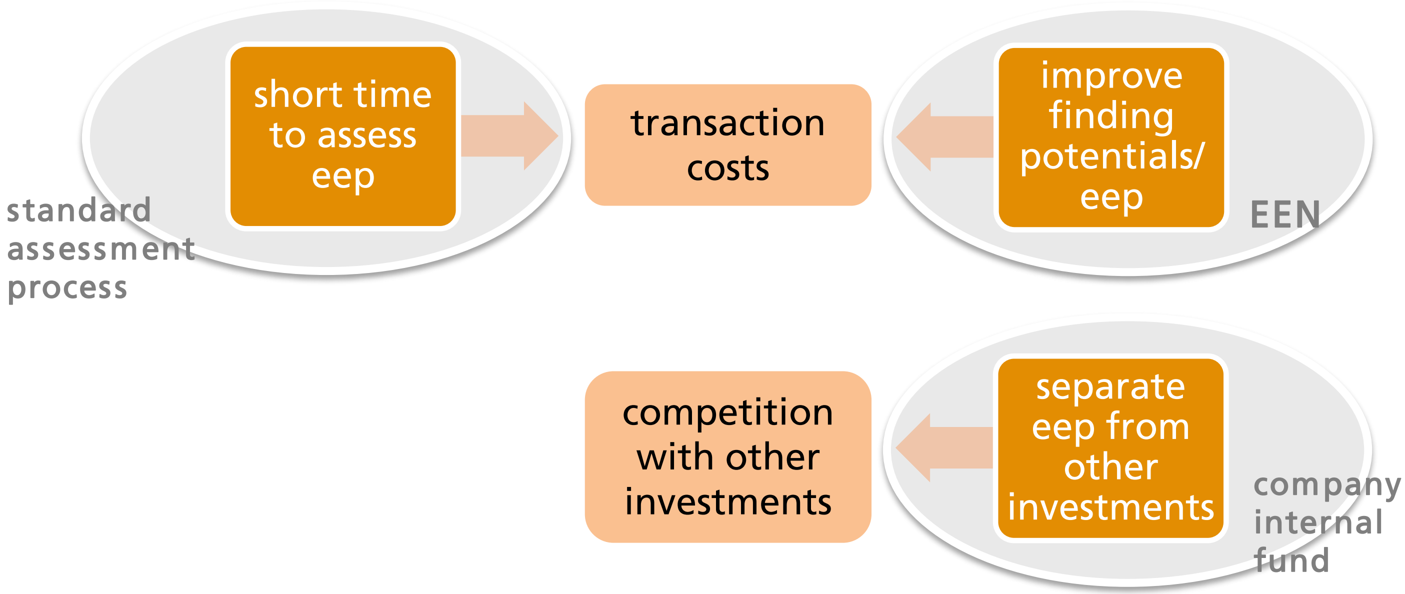
For (external) financing of eep the obstacle „transaction costs“ is not addressed by EEN.

- „transaction costs“ of financing an eep: the evaluation of each company and each eep generates high transaction costs.
  - transaction costs for the evaluation of each eep can be reduced through a standard assessment process especially in case of external financing



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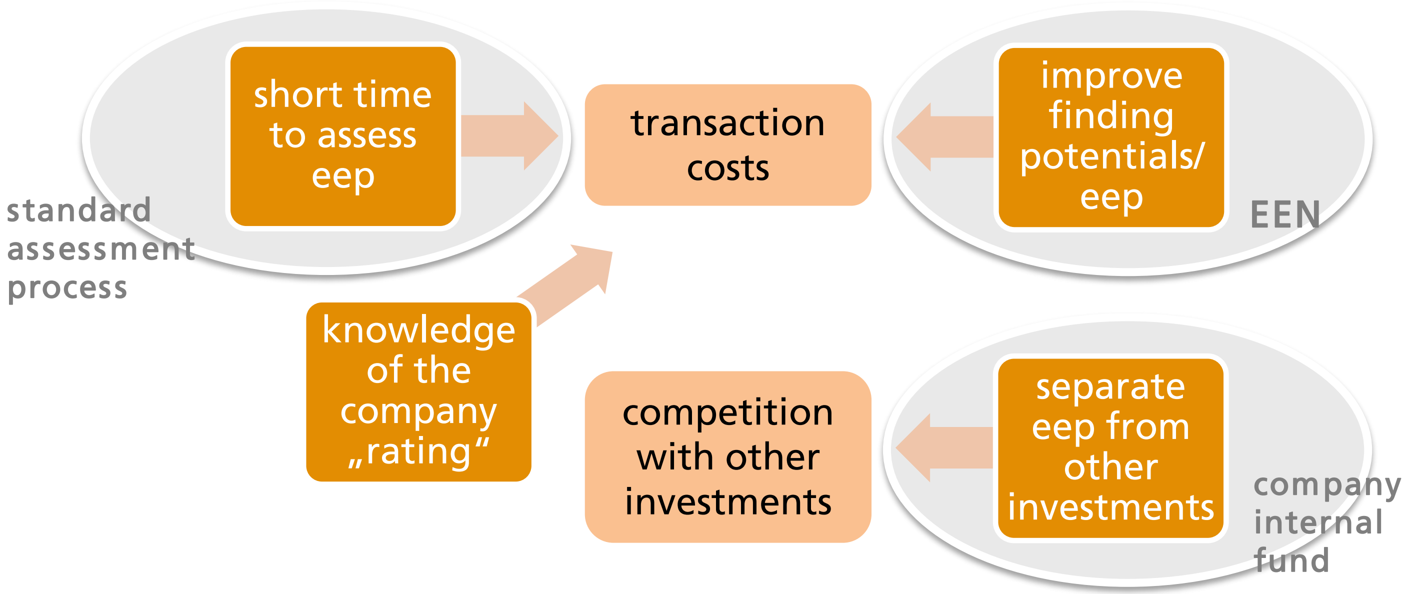

→ How can transaction costs for the evaluation of each company be reduced?

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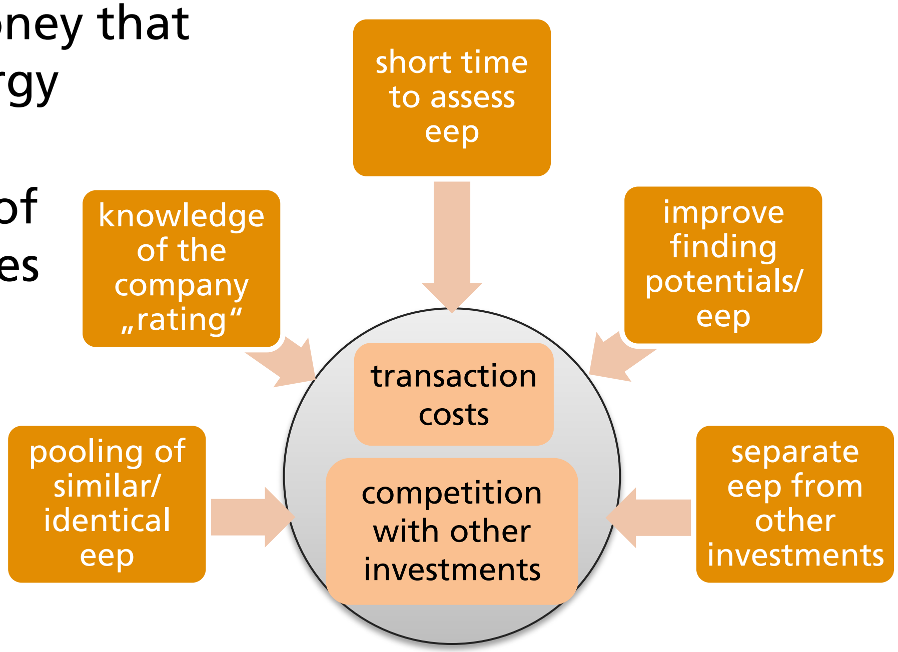
When combining the three approaches there are not only synergy effects but also the possibility to pool eep which in turn also reduces transaction costs.

- Innovative financing concept: distributed internal fund within/across EEN consists of a combination of internal fund approach, EEN and a standard assessment process.
  - fund only accessible for participating companies of EEN
  - secures an amount of money that can only be used for energy efficiency investments
  - finances bundles (pools) of energy efficiency measures
  - lower transaction costs through a standard assessment process especially in case of external financing



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Conclusion

- Two main obstacles (transaction costs and competition with other investments within a company) are identified which hinder allocation of investment capital for eep
- Distributed internal fund is a mix of
  - Company internal fund approach
  - EEN: EEN characteristics enhance the effect of internal fund
  - Risk analysis: Not only can transaction costs be reduced, but also the possibility to realise an eep (with external financing) can be increased.
- With an EEN as a framework a risk analysis can be used effectively.
- A “carrot and stick approach” can be used to support the establishment of the 500 Energy Efficiency Networks: Establishing a distributed internal fund within an EEN as a precondition for getting access to funding programs.

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Thank you for your attention.

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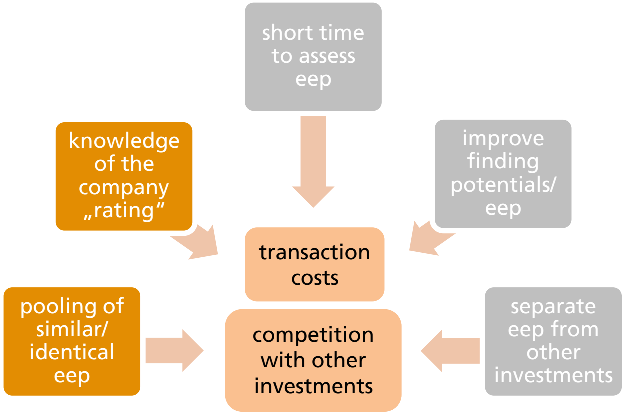
Through the selection of companies joining the EEN pooling of eep can be facilitated and creditworthy members can be ensured.



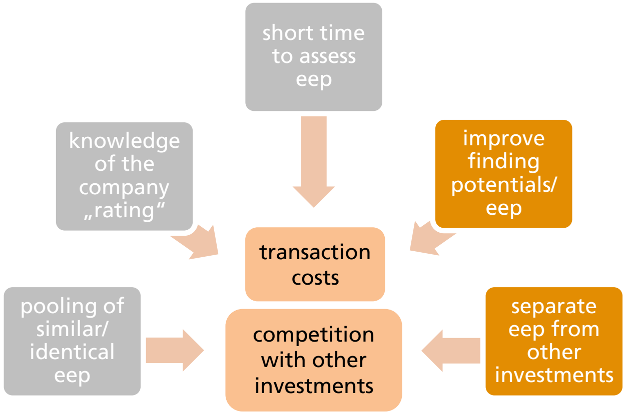
pooling of similar/ identical eep

- Companies joining EEN are generally interested in eep
- If companies are distributed/selected carefully, the possiblity of pooling similar/identical eeps rises
- Pooling could be possible across EEN

knowledge of company „rating“

- Companies joining EEN undergo a screening process
- „Rating“ is done during application process
- Creditworthiness is given through membership

EEN promote the attractivness of eep through training and enables new evaluation frameworks for investments in eep.



improve finding potentials/ eep

- EEN support information exchange about energy efficiency potentials
- knowledge about savings/benefits of eep
- awareness of economically viable projects
- higher willingness to invest in eep

separate eep from other investments

- companies joining EEN removes eep from the context of other investments
- evaluation of investments in eep can be done without only focusing on payback period
- EEN fund makes eep more attractive

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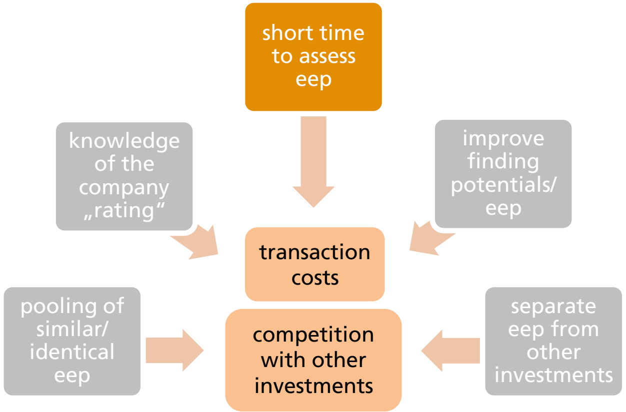
Risk analysis enhances „security“ on both sides: creditor and debtor. A standardised assessment process lowers transaction costs.



short time to assess eep

- relevant associated risks are assessed/evaluated
- assessment ensures quality and comparability which makes the eep transparent
- thereby creates trust/confidence and eases communication between creditor and debtor
- reduces time for decision makers on both sides
- definition of a „rating“ process only once for each (group of) energy efficiency measure