

Interview with Mr. Goldmann on ESCOs

Mr. Goldmann, we welcome you on your first visit to India on invitation from Indo-German Energy Program for presenting paper in the International Conference on ESCO's organized by PCRA on 1-2 June 2005 at New Delhi. During your visit IGEN had also organized two meetings with International Airports Authority and IREDA, to share their experiences and your experiences on ESCO's contracting during this visit.

You have been actively involved in all the proceedings of this conference, where the deliberations were made with regard to Indian ESCO scenario roles and responsibilities of ESCO's capacity building, formulation of standard document and other related issues, etc. As you have vast experience in this area, and being an expert, we seek your opinion / advise / comments regarding the prospects of ESCO's. We would like to share your experience and know more about ESCO's.

Q. What is the international scenario, prospects and market potential for ESCO's?

A. The concept of Energy Services receives more attention now in Europe. The market potential is considered to be high (apprx. 25 billion €). The European Commission has launched a proposal for a new directive that will support ESCO activities in Europe.

Q. Is India ready to implement energy efficiency through ESCO's? Where do India stand in comparison with the other developed countries? What needs to be done to promote ESCO's in India?

A. Yes, India has a huge potential to use energy services and substantial savings can be achieved through energy service companies. The market for ESCOs is not yet developed in India, but there is political support and also an understanding how the concept might work. For further development of this market some pilot projects in the different sectors have to be successfully implemented to show that the system is working.

Q. Energy savings is the top priority for Govt. and business houses. ESCO's could be a viable mechanism, however despite all efforts during past years ESCO's have not reached the critical mass in terms of numbers and the effectiveness of their efforts. In your opinion what is the reason for this, and how the capacity building exercise should be carried out?

A. The market is just developing and an ESCO Industry will come after some demand exists on the market. Therefore the main instrument to create more ESCOs will be to launch more projects. The industry will act on this demand.

Q. What kind of training you feel necessary for ESCO's as well as for client and other related institutions?

A. Training and capacity building should be provided for public authorities and project developers. For the public sector in Europe the concept of mediators between the public and the private sector has been a good concept. Training for ESCOs might be necessary to reduce transaction costs, thus there might be a need to explain the expectations and procedures especially for public sector clients.

Q. What should be the accrediting mechanism to certify the ESCO's? Is there any international certification procedure exists for ESCO's? How to assess the capability of ESCO's?

A. This is also currently discussed in Europe and no experiences do yet exist.



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Degree in Mechanical Engineering. Ralf has worked since 1993 in the energy efficiency business. He started his career at the Energy Agency of Lower Saxony. From 1996 until 1999 he worked at Luxcontrol S.A. in Luxemburg, finally as the Head of the Energy Department. Here Ralf worked as a consultant for the CEEC, CIS and in South East Asia. He joined the Berlin Energy Agency in 1999 and was responsible in the development of the international activities of the agency. Currently he is managing the Division of International Know-How transfer of the Agency. His core tasks have been the successful transfer of the ESCO related experiences of the agency to the economies in transition. Ralf developed the standard for Energy Performance Contracting for Slovenia and has initiated the first EPC Project in this country. Similar tasks have been performed for Bulgaria and currently Ralf has led the Clearinghouse for Contracting for eight CEE Countries and has expanded this project to a European Platform for Energy Performance Contracting.

Ralf is member of the VDI (Association of German engineers) and the European Council for an energy efficient economy (ECEE).

- Q. Would you suggest formation of a regulatory body to ensure some minimum requirement and also certain guidelines regarding fee structure etc.?
- A. No, this can be achieved by well-designed contracts, which should include an investment list, which is subject to verification
- Q. In India, there are only 5 – 8 ESCOs who are active in energy efficiency business? How does one promote ESCO's?
- A. As mentioned before, this can be achieved through the market/demand. Still all other instruments for creating new industries are valid if one considers them to be needed (fiscal policy, provision of equity by IFIs, subsidies, soft loans)
- Q. Since ESCO's method involves project financing, off the balance sheet financing, what are the methods used by FIs in industrialised countries?
- A. There we have the same problems in Europe. Pure non-recourse financing is still not accepted by all FIs. In the moment Forfeiting becomes used more and more, allowing the ESCO to sell the receivables of the project to a certain amount and thus give the possibility for the ESCO to finance new projects.
- Q. How the risk in the projects can be minimised?
- A. Through good contracts, including M&V. Still a proper evaluation of the client and the ESCO is always needed.
- Q. The transaction costs are very much higher in ESCO's project. What are the normal ways, these are minimised?
- A. In Berlin we try to standardize procedures. In addition we also have a concept of pooling building thus lowering the project development costs as the procurement and bidding process for smaller projects (e.g individual buildings) is too expensive. The variable costs for scaling up to a pool of buildings are low compared to individual projects.
- Q. What is the international dispute resolution mechanism? How do one operationalise in countries like India?
- A. Currently IPMVP provides good rules for calculating the savings. In Berlin we as the intermediate agency solve the disputes between the ESCO and the client.
- Q. What are the roles & responsibilities of ESCO's? In your opinion, how important is client's roles & responsibilities? Can we develop a model guideline contract for the reference or this guideline is already available in developed countries?
- A. Both parties have certain responsibilities, which would be too detailed to explain here. A model contract is certainly the best way to ensure a common understanding. In Europe within the project Clear Contract and EUROCONTRACT model contracts are developed. In Germany we have guidelines and models available, which have been developed by our agency.
- Q. There is always uncertainty while executing such projects. What are the challenges before ESCO's? What are the risks of a ESCO's? How the risks could be mitigated?
- A. There is certainly technical challenges which should normally not be a problem for a qualified ESCO. We are grouping building together for one contract so the performance guarantee is given for a pool of buildings. Thus you can leverage the risk between the buildings.
- Q. Berlin Energy Agency (BEA) has been acting as a procurement agency for Energy Efficiency through ESCO's route in Germany & other European Countries. Can you suggest whether such similar arrangements can work in India & how this can be developed?
- A. For sure this would help. We have seen in Europe that intermediate agencies play a significant role for the market development especially in the public sector, where all projects are subject to public procurement. This can also be developed in India. It should be taken into account that these agencies should be near to the market, so one idea could be to develop an agency which has also entities in every state or even at the level of the regions.
- Q. Finally to make a smooth and successful beginning in India in this area, please suggest ways?
- A. One thing is for sure that the development of the markets takes place in transparent way, including also the discussions from the administration, the ESCO-Industry and the financial sector, like we have seen it on the conference. Model contracts for the public sector are crucial and as mentioned before intermediate agencies can help a lot.

Thank you Mr. Goldmann for sparing your valuable time. We will certainly seek your expertise in near future also.

Any comments or query may be sent to info@energymanagertraining.com