Deliverable D4.3: Rhodoshop Guidance Material for Future OSS Initiatives

WP4 - Monitoring of results

Rhodoshop - a pilot programme to facilitate investment in energy efficiency by creation of One-Stop-Shop in Rhodope Region of Bulgaria

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Prepared by: Ivanka Pandelieva-Dimova, SEC

Contributor: Zlatka Nikolova, ARM

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List of Acronyms

EE – Energy Efficiency

EPC – Energy Performance Contracting

ESCO – Energy Service Company

GA – Grant Agreement

OSS – One-Stop-Shop

PV – Photovoltaics

RE – Renewable Energies

RES – Renewable Energy Sources

RoI - Return on Investment

SEP – Sustainable Energy Projects

SME – Small and Medium Enterprise

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1. Executive Summary

The present document comprises the main conclusions and recommendations for local authorities in the Rhodope region and other relevant stakeholders for One-StopShop model adaptation based on the results from the operation of Rhodoshop OSS. The main aim is to spread the practical experience in OSS business model application in the Rhodope Region in order it to be used for dissemination and promotion purposes, and to help future similar undertakings.

The document presents the pros and cons of the One-Stop-Shop model adaptation for Rhodope Region and provide explanations on the following topics:

- The main risks that have materialised during the five-year of Rhodoshop pilot programme, and the risk mitigation measures taken by the Consortium,
- The main factors for success or failure of concrete investment projects in the contexts of the local circumstances in Rhodope Region;
- Recommendations on how to improve the business model locally and/or adapt it to the conditions in other regions or municipalities.

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2. Background and Objectives

The present documents is based on the analysis of the results of the Rhodoshop One-StopShop practical operational experience outlining the main aspects to be taken into account for successful model adaptation and replication in other regions. The main objective is to provide guidance to stakeholder willing to replicate the action, which can be used for dissemination and upscaling purposes.

The document presents the major risks that have materialised during the five year operation of Rhodoshop OSS together with the mitigation measures taken, the main influencing factors for success or failure of sustainable energy investment projects in the context of the Rhodope Region of Bulgaria, and recommendations on how the gained experience can be used for the future Rhodoshop OSS operation and further tailored to other conditions in order to adapt and/or improve the business model to produce better results.

The target groups are the local authorities in the Rhodope region and other relevant stakeholders: municipal authorities of other regions, national authorities, local banks, ESCOs, other financing institutions, local consultants.

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3. Main risks and risk mitigation measures

Foreseen risks

The following paragraphs outline the main risks that have been initially envisaged and have materialized during the Rhodoshop OSS operation together with the measures taken to mitigate or neutralise them.

Iinvestments in the project pipe-lines are lower that initially envisaged.

The reasons for that were the following:

- There were projects that had been changed and replaced by the municipalities since the action start.
- The amount of the investments initially foreseen was based on preliminary assessments while the actual amount was derived from concrete figures resulting from energy audits performed so it was much more precised.

It should be noted that while the amount of investments is lower, the amount of associated energy savings based on audit results, is higher than that foreseen which means that the energy saving results will be more cost effective than initially foreseen.

As a mitigation measure more investment projects were brought into the pipelines. This, however, took time for the newly selected projects to go through the whole Rhodoshop investment project chain from contacts with municipalities through selection, energy audits, feasibility assessment, funding options until tender publication and investment contract signature which was coped with by extension of the project duration.

Replacement of local authority during project implementation. During action execution local elections were held and local authorities changed in two municipalities form Rhodoshop OSS pilot programme. However, the materialisation of this risk did not hamper the project execution as binding agreements of subscribed municipalities ensured through Municipal Council Decisions were at place as well as there are good instructions on Rhodoshop function and proper records on the subscribed municipalities that allow for smooth transition of activities to the newly elected administrations.

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Projects not able to secure funding. The performed investigation of the ESCO[1] market in Bulgaria showed that after an initial upsurge now the market was almost entirely frozen which made this source of funding hard to access by Rhodoshop project pipe-lines. Other funding sources were approached but there were newly created or updated financial mechanisms (like Operational Programme Regions in Growth, Financial Mechanism of the European Economic Area and Norwegian Financial Mechanism 2014-2021) for which it took much longer time than initially anticipated to become operational. The measure to mitigate the effect of this risk materialisation was to extend the project duration which has proven to have the desired effect although not in full. The **main conclusion** from this risk materialisation is that it is a **factor of utmost importance** for achieving project quantitative results and therefore should be seriously considered and measures foreseen form the very beginning of project execution.

Unforeseen risks

Some risks that have not been foreseen initially but materialised during Rhodoshop OSS operation, are presented below.

Prolonged instability of the national political system in the country

It might be considered a low-impact risk in some economies but it proved to have a major impact over the operation of Rhodoshop OSS. The political instability started in the Summer of 2020 and continues up until now, with caused consequent delays in lawmaking, regulatory framework adoption and consequently launch of funding mechanisms. There were three general elections held in 2021- in April, July and November 2021, and one more general elections held on 2 October 2022 with very limited chance to form government. These political developments hampered the elaboration and parliamentary adoption of the Bulgarian National Plan for Recovery and Resilience, which was submitted to the European Commission on 31 May 2022 with a delay of more than a year, consequently delaying the launching of the necessary financial mechanisms, including grants, loan schemes and credit lines foreseen for sustainable energy projects. Consequently, there are investment projects in the

[1] ESCO market situation is explained in more details in D4.2 RHODOSHOP Examples Catalogue

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Rhodoshop project pipelines, which are at the ready-to-fund stage but for which contracts for funding have not been concluded due to the above mentioned delays. The mitigation measure applicable is contract extension but it should be taken into account that there is a certain limit to it and it cannot be extended many times as the resources allocated for the initial contract duration may not be sufficient to cover the extensions, and thus this risk is recommended to be considered from the very beginning and try to think of other mitigation measures according to the specific context.

Sharp price increases

For the projects that have already signed funding contracts there are sharp increases in the prices of materials and works within the last year and a half, which entailed the necessity to reassess the budgets for the investment projects and index them according to the new prices. As a consequence, launches of public tenders are postponed and measures are reduced in order to cope with the available budgets.

Force Majeure

The out-break of **COVID-19 pandemic** in the beginning of 2020 resulting in months of close-downs and pausing activities in all sectors of Bulgarian economy. The situation with COVID0-19 slowed down the activities of Rhodoshop OSS and delayed investment project preparations so the measure taken was to extend the duration of the action in order to cope with the delay.

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4. Factors to be taken into account

The main factors for the successful operation of Rhodoshop OSS and achieving results can be summarized as follows:

- Awareness of local authorities about energy savings and climate actions and existence of respective strategies and policy documents at local level. Before Rhodoshop OSS was initiated, there had been a long-lasting and continuous work with the municipalities in the Rhodope Region for sustainable energy policy promotion and dissemination through various activities starting from 2012, including Covenant of Mayors promotion, assisting the creation of SEAPs/SECAPs, assisting project selection and development, participation in actions about innovative financing mechanisms, etc., which has led to the need to make concrete investments in order to reach the foreseen targets, and therefore to the launch of the Rhodoshop OSS initiative;
- Crucial factor for the successful operation of Rhodoshop OSS was the political commitment of the pilot local authorities who were aware of the need of such investment but lacked the capacity to develop ready-to-finance projects and thus launch the investments successfully. This commitment allowed the activities to be kept going in spite of numerous barriers and threats, and finally investments and related energy and CO2 emission savings to be achieved;
- Another important factor for the operation of Rhodoshop OSS proved to be the constant communication and collaborative work with municipalities and listening to their needs and priorities that changed during action implementation due to external political and economic factors;
- Assistance offered to municipalities in the whole project development cycle through development of pipelines of ready-to-finance projects by creation of a structure to concentrate in one place knowledge and advice about the different aspects of project development –Rhodoshop OSS;
- Building local capacity: at the very beginning of the action careful selection of staff for the Rhodoshop OSS was done through an open recruitment procedure following the principle of equal opportunity, impartiality and merit based selection. The recruited staff was extensively trained in the relevant aspects – technical, economic,

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legal and organizational, of EE projects through a 5-day training delivered by qualified experts, at the end of which an exam was held that showed a very good rate of learning the basics needed for SE project development and implementation which was later supported by 5-year experience in pipe-line establishment and investment launch. All these local capacity remains at place for further efforts to improve energy efficiency in the Rhodoshop region.

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5. Main Recommendations

The recommendations to the public authorities and other stakeholders willing to undertake similar activities have been derived from the main lessons learnt during action implementation. These can be summarized as follows:

- Ensure political commitment of the local authorities through long lasting continuous work for policy and project promotion and dissemination through various activities, e.g. CoM initiative promotion, assisting creation of SEAPs/SECAPs, assisting project selection and development, etc. The effect of this work will be awareness of the importance of climate change actions and commitment to sustainable energy investments;
- The overall political situation and stability in the country is of critical importance for the operation and results of PDA actions as it leads to organisational, legal and financial consequences beyond the scope of influence of project owners (municipalities) and project facilitators (Rhodoshop OSS). It should be taken into account from the very beginning of the action and continuous efforts should be put in overcoming any resulting negative consequences;
- Continuous communication with municipalities at every step in the project development (energy audits, feasibility studies, search for funding, matching funding requirements, launch of public tenders) and responding timely and adequately to their needs is a prerequisite for successful operation having in mind the dynamic nature of municipal priorities and the resulting need to constantly update the project pipelines. It involves much resources that should be foreseen at the beginning of the action.
- Foresee enough time for the action to get results. The experience of Rhodoshop shows that three years is not enough for PDA actions because of their complexity depending on many various factors, foreseen and unforeseen, therefore longer project duration should be thought by PDA portfolio owners in order to have enough time to cope with any risks and unforeseen circumstances influencing negatively the promised projects' results.

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- Bear in mind that the investment pipelines are not a constant set of projects but are dynamic and change throughout the action depending on changing priorities in municipalities, results from energy audits and technical and economic assessments and on the specific requirements of funding bodies.
- It is not possible to have precise figures about the quantitative parameters (investments, energy savings etc.) at the beginning of the action because the data the municipalities have, is usually an approximation. One of the main reasons for initiating the action actually is to perform energy audits and feasibility studies in order to get more precise data about the technical and economic performance of the investment project which then to be used to prepare the project for getting funded.
- Make sure to build local capacity - qualified staff trained and experienced in sustainable project development and implementation who will perform the activities and deliver the results, and who will remain locally at place to ensure the project sustainability in the future and scaling up the results in other sectors, e.g. private residential sector;
- Albeit the numerous benefits for the municipalities, the experience of Rhodoshop operation reveals that sustaining of such structure should continue to rely on public funding. Municipalities provide services to all citizens/general public using public infrastructure such as public buildings (schools, kindergartens, hospitals, community centres, etc.) and street lighting systems, which means that financing improvements of this infrastructure (incl. technical assistance) is logical to come from public funding. Furthermore, municipalities are not-for-profit entities and any savings of costs, incl. energy costs, do not form a surplus but lead to decrease of the following year's respective budget so form strictly business point of view there is no monetary incentive for municipalities to do energy efficiency improvements. There are numerous non-monetary benefits though, like increased indoors comfort, increased citizen satisfaction, contribution to GHG emissions reduction and combat of climate change, decrease of energy dependence, etc. which form the main incentive of the municipalities topursue local sustainability policies but from strictly

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business point of view it is not logical to expect this to be profitable business for them. On the other hand, the Rhodoshop OSS is an initiative undertaken by small rural municipalities with low economic activity and decreasing population resulting in insufficient income from taxes and reliance on redistribution by the national budget of Bulgaria. According to census 2021, Smolyan district (where Rhodoshop member-municipalities belong) is the fastest depopulating district in Bulgaria – its population declined by 20,9 % since 2011. Thus the shortage of sufficient resources hampers the capacity of Rhodope municipalities to finance an OSS for energy refurbishment of public infrastructure. However, the Mayors and Municipal Councils from the region are doing their best to deploy as much investments as possible in their efforts to improve local conditions for increased citizen satisfaction and combat depopulation, and the existence and the operation of Rhodoshop OSS is of utmost importance for them. Based on the above presented it can be concluded that in order to make the OSS business model work at local/municipal level, it should try to extend the OSS scope of services to the private sector (mostly residential but also industrial and tertiary), and limit the public support only for households that are in vulnerable situation and thus cannot afford to pay for OSS services.

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