

# NEW ENERGY WORLD

ISSN 2753-7757 (Online)

## Bridging the financing gap for ESCOs

31/5/2023

8 min read

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▲ Astatine's CMLS cold storage facility in Ireland fitted an 850 kW solar PV system using financing through SSEF

Photo: Solas Capital AG

Energy Service Companies (ESCOs) will play a key role in driving the energy transition in Europe and reaching the EU's ambitious climate targets, but there remains an investment gap, especially for financing smaller SME and residential projects. Louisa Troitzsch, COO of Solas Capital AG presents her thoughts.

The European regulatory environment is driving the rapid rise in demand for energy efficiency and small-scale renewable projects. For instance, the REPowerEU plan, which was launched in May 2022 to facilitate energy independence from Russian energy supplies in response to the invasion of Ukraine, set aggressive targets for the European energy transition.

In addition, the cost of phasing out Russian fossil fuel imports has been estimated at €210bn, leading to rapidly increasing demand for investment in clean energy technology projects in the EU.

These ambitious targets coupled with rising energy prices across the European Union (EU) (peaking at a 163% increase in September 2022), have driven the need for governments and businesses to find fast and effective ways to reduce energy consumption.

Energy efficiency (EE) and distributed/behind-the-meter renewable energy generation (DEG) solutions, such as installing solar PV panels and/or battery storage onsite, present a useful resolution to this combined problem. They are typically quick to implement and lead to an immediate reduction in energy costs and emissions. As such they have become the logical choice for

companies and individuals to achieve both their financial and sustainability goals.

Yet the high upfront capital costs related to these installations are a barrier for many SMEs and individuals. This has resulted in the growth in demand for 'as-a-service' models, where the end consumer has zero upfront costs, instead making regular payments, for example under a power purchase agreement, for the provision of energy services.

ESCOs offer energy services to achieve energy and environmental goals, guaranteeing savings or the provision of the same level of energy service for a reduced cost. They may finance or arrange financing for the operation and their remuneration is paid back by the energy savings achieved. Their business model helps finance energy systems that are vital for the transition.

### **Shortfall in funding**

An estimated annual investment of €275bn in building renovations is required to meet the EU's target of reducing greenhouse gas emissions by 55% from 1990 levels by 2030. The lion's share of this renovation will be provided by EE and DEG solutions, and yet there is still an annual shortfall of around €180bn in EE investment.

This shortfall cannot be met by public financing alone, which is bringing about an urgent demand for third party capital providers, especially those specialised in the EE and DEG sectors, to fill the financing gap.

For many Energy Service Companies (ESCOs), traditional debt funding sources are either unavailable or unattractive, since they are not designed for smaller infrastructure projects, and will often only consider off-takers with the highest credit ratings. This impedes the implementation of EE and DEG projects in SMEs and residential communities.

In contrast, the Solas Sustainable Energy Fund ICAV (SSEF), a regulated €220mn investment fund offering tailor-made financing solutions, is specifically designed to address the needs of these smaller off-takers. Individual project sizes are unimportant, as long as ESCOs can demonstrate an investment potential across their portfolio of at least €10mn. Additionally, the credit guarantee provided by the EU's LIFE programme allows SSEF to bear the credit risk of the off-taker, even for SME credit ratings.

The technologies which are supported by the fund include self-consumption solar PV, LED lighting, heat pumps, combined heat and power plants, and microgrids.

More financial solutions are needed to provide smaller SMEs and residential communities with clean, cheap power and improve their energy efficiency.

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### **Bridging the investment gap**

SSEF bridges the gap between institutional investors and small off-takers by bringing together institutional investors from both the public and private sectors, including the European Investment Bank and MEAG (Munich Re's asset management company). The fund is also supported by the EU's LIFE Programme's 'Private Finance for Energy Efficiency' (PF4EE) guarantee.

Through this unique combination of institutional investors and EU support, SSEF can provide long-term capital.

The investment strategy finances up to 100% of Capex needs, based on predictable stable cashflows. The end customers, typically corporate or industrial SMES or residential communities, therefore receive a clear benefit from SSEF's financing solution, which allows them to reap the benefits of EE/DEG infrastructure without having to incur the high upfront capital costs.

By paying a monthly or quarterly fee to the ESCO, the off-taker is able to reduce its energy costs and Scope 2 emissions, and increase its energy security.

SSEF is able to provide financing for projects across the EU. The markets in which it is currently most active are Spain, Portugal, Ireland, the Netherlands, Germany and Poland. The suitability of SSEF's financing model in a particular country is determined by factors such as the regulatory environment, maturity of the EE and DEG markets, and the country's economic situation.

Solas Capital, the specialist investment advisory firm based in Zurich and Dublin which advises SSEF, comprises a team of experts in energy efficiency financing, who have a deep understanding of the ESCOs' business models, and the challenges that they face. By providing tailored advice to project partners, SSEF facilitates the funding of EE and DEG the EU.

Sebastian Carneiro, Managing Partner of Solas Capital says 'The energy transition is about the deployment of energy efficiency and renewable energy assets – roof by roof, building by building. The ESCO model plays a key part in accelerating and scaling the roll out of these assets and Solas Capital's funding solutions have been built around the business needs of the ESCO.'

### **Operational projects financed by SSEF**

One project that has already received financing from SSEF is the CMLS cold storage facility in Oranmore, County Galway, Ireland. Astatine Ltd, a leading

innovator in energy and CO<sub>2</sub> reduction solutions based in Ireland, installed the 850 kW solar PV system and provided CMLS financing through SSEF.

This 'solar as a service' (SaaS) model means that CMLS had no upfront capital costs and will pay a fixed rate for its solar energy for the next 12 years. The facility will produce around 680 MWh of energy per annum, delivering a 25% reduction in carbon emissions and a 50% reduction in electricity costs for CMLS.

This project is just one example of a growing portfolio of projects that are receiving financing through SSEF. Other live projects include LED lighting, industrial-scale heating and cooling renovations, and commercial and industrial self-consumption solar PV. Through agreements with ESCO partners signed since its launch in February 2022, SSEF has committed to finance for a pipeline of projects that will contribute to avoiding 24.6 kt CO<sub>2</sub>e emissions, making the fund a pioneer in the energy transition sub-sector of energy efficiency finance.

### **The future for EE and DEG financing**

Solas expects to increasingly see funding requirement for energy storage solutions and for technologies which deliver services to the grid over the coming years. The investment requirements for EE and DEG projects will remain vast for the foreseeable future, and large institutional investors remain remote from the needs of smaller project finance projects.

By understanding the funding needs of energy efficiency and self-consumption PV projects, and the requirements of institutional investors, Solas bridges this investment gap.

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