Accreditation of ESCOs

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Background

- Energy saving potential in the range of 23% -46% has been identified through energy audits conducted in public buildings
- The potential is largely untapped, partly due to lack of effective delivery mechanisms for energy efficiency.
- Implementation of EE interventions are hampered by institutional, procedural and process barriers, particularly the inability of energy managers to assess and guarantee energy savings in a manner that can provide comfort and confidence to the users.
- The overall energy efficiency market under performance contract in India has the potential to save about 54 billion units of electricity annually.

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Barriers to Energy Efficiency

- Lack of information about comparative energy use.
- Risk due to lack of confidence in performance of new technologies.
- Higher cost of EE technologies.
- Asymmetry in sharing of costs and benefits-especially in building sector.

Energy Service Companies (ESCOs)

- Develop, design and finance Energy Efficiency projects.
- Install and maintain the energy efficient equipment involved.
- Measure, monitor and verify the project's energy savings
- Assume the risk that the project will save the amount of energy guaranteed.

Need for Accreditation

- An exercise for expanding the number of existing ESCOs through an open invitation and evaluation process was taken up by BEE.
- In order to create a sense of credibility amongst the prospective agencies that are likely to secure the services of an ESCO as well as the financial institutions, a process of rating ESCOs was taken up through CRISIL and ICRA.
- Rating was carried out in terms of success in implementation of energy efficiency projects based on performance contracting, availability of technical manpower, financial strength, etc.

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Methodology followed

- A set of criteria was devised to evaluate :
  - *Business Risk Factors*- essentially track record and market position in ESCO/energy management businesses
  - *Organizational Risks*- ability of the management to gear up for ESCO contracts
  - *Financial Risks*- financial strength of the company to invest in ESCO projects
- Data provided by the ESCOs being graded were the primary source of information. Information available with BEE was also utilized
- Extensive interaction with key functionaries of the companies, bankers and auditors

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Key areas evaluated

- **Track Record and Market Position** ***(Weightage : 20 %)***
  - Years in the ESCO/energy management business
  - Number and nature of energy audits carried out till date.
  - Client Profile
  - Number of different industries served.
  - Order book strength as measured by ratio of current order book/previous years turnover.
  - Number of energy management projects completed.
  - Certification and quality systems.
  - Technology tie-ups.
  - Patents held by the company.
  - R&D facilities.

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Key areas evaluated

- **Organizational risks** (***Weight age : 40% points***)
  - Constitution, ownership structure and parentage
  - Management evaluation and quality of organizational structure, internal control and systems.
  - Employee strength in terms of numbers, qualification and experience.
  - Number of certified energy auditors.
  - Maximum number of projects handled at a time.

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Key areas evaluated

- **Financial risks** *(Weight age : 40% points)*
  - Annual turnover from the ESCO/energy management business
  - Profit margins of the ESCO business.
  - Overall financial strength as reflected by the capital structure and debt servicing indicators like net cash accruals/total debt
  - Receivables management.
  - Financial flexibility arising from access to cash flows/profits from other business.

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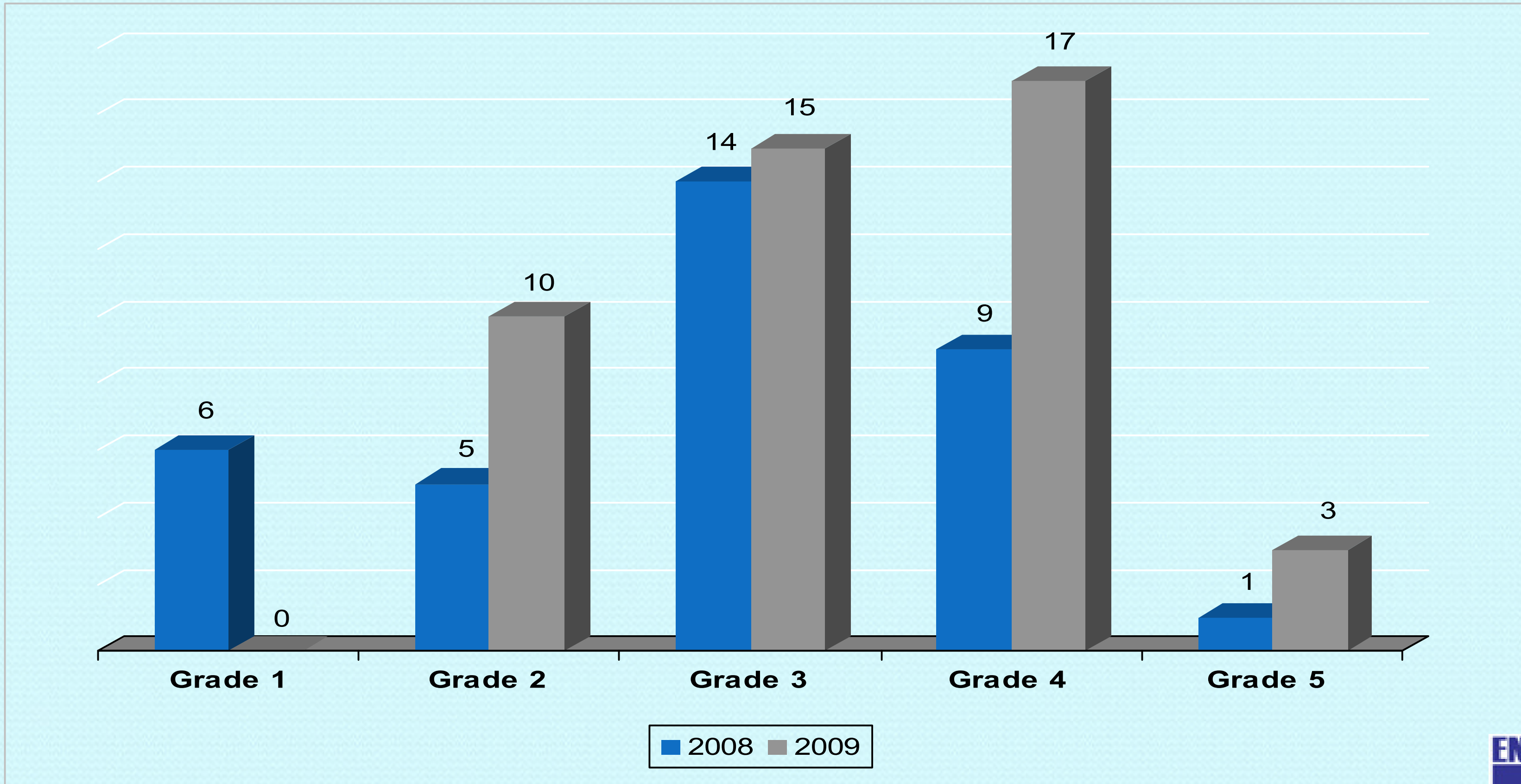
Grading Scale

ICRA / CRISIL-BEE Grading	Definition	Score
GRADE 1	Very High	85 and above
GRADE 2	High	70-84
GRADE 3	Good	55-69
GRADE 4	Below Average	40-54
GRADE 5	Poor	0-39

The ESCO Grading Distribution

55 per cent of the graded entities have above average execution capability in 2009 against 70 per cent in 2008.



Advantages of Accreditation

- **Availability of adequate and proper manpower:** The availability of experienced technical personnel
- **Financial capability:** The company's **cash flows, funding pattern, profitability** for the past and also the ongoing projects
- **Financial flexibility:** The ability to raise **additional sources of finance** for expansion.
- **Technical due diligence:** The exercise of accreditation of ESCOs by BEE through rating agencies CRISIL/ICRA would help in providing the technical due

Advantages of Accreditation

- **Enhance Credibility**: enhance credibility to the nascent industry and increase investor confidence
- **Extensive Rating**: overcoming the barrier of inadequate information about the ‘ESCO based performance contracting’.
- **Potential ESCOs**: New organisations that have a potential to become ESCOs are adequately addressed through these ratings
- **Create larger pool** : increase the number of ESCOs and encourage market transformation.
- **Market Position** : The market position of the ESCO in terms of the total existing business and his position as compared to its competitors.

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Advantages of Accreditation

- **The competitiveness of the contractor**: achievements of the targeted savings in energy and the price will affect his market position.
- **Quality of projects executed**: The quality of future projects in terms of achievements of the targeted efficiencies within the budgeted cost
- **Successful project implementations in the private sector -** ESCOs in India have executed a large number of meaningful projects in energy efficiency over the past three years.
- **Better awareness creation could spur larger energy efficiency projects-** Energy users would be better placed if there were some guidelines available on the need and requirement for undertaking such projects.
- **Weak financial strength constrains growth of ESCOs**- to execute its first project, a large seed capital is an essential requirement.

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Impact of Accreditation

- ***Growing participation of companies in related areas***
  - Manufacturers of solar energy products
  - Power distribution companies
  - Manufacturers of automation products
  - Consultants and project advisors
- ***Mix of large and small and medium enterprises***
  - Enjoy good reputation among clientele
  - Executed large number of projects
  - Thrust on energy efficient products being used in projects
  - Focus on using renewable energy
  - Increasing use of technology to optimize power consumption

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Impact of Accreditation

- ***Significant energy savings – almost 30%***
  - ESCO usually meet their commitments on energy savings
- ***Benefits are tangible***
  - Energy savings can be calculated
  - Easy buy-in from the customer
- ***Size is not a determinant of technical capability***
  - Smaller-sized ESCO have executed complex projects
- ***Passionate and enthusiastic responses from ESCO***
  - Passion about the business
  - Ability to see the long term potential of energy efficiency projects
  - Business with a strong cause

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