



"Third Party Financing" - An alternative funding tool

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Third Party Financing (TPF) is an alternative approach for investment funding aiming at improving the energy efficiency of building and industrial facilities by a third party, other than the user of the facilities. In the TPF approach the user concedes the funding role to a third party, either because he is unwilling or insufficient to provide the operation funds. The third party invests in equipment renewal and facility improvement, and benefits from the resulting energy saving.

Such users can be building facilities, such as schools, universities, hospitals, sport facilities, etc, or even industrial units. Interventions can be namely the upgrading of equipment regarding heating, air conditioning, lighting, etc, or the establishment of cogeneration units (CHP).

Perspective third parties can be either the equipment supplier, specialized energy saving companies (ESCOs), or even the state. The most preferable choice is ESCOs, since they possess all these features that can produce profit and surplus for the final user. An ESCO can supply services such as energy planning, feasibility studies or technical reports; it can also ensure funding, supply and install equipment, guarantee project efficiency, being at the same time responsible for the control and certification of the result, its operation and maintenance.

Regarding the efficiency profile, the reimbursement period depends on the cost of energy and the contract between the user and the investor. In certain cases the user also contributes in the total investment with a relatively small percentage. An important issue though is still the difficulty in monitoring the project performance and the respective ratio dedicated to the investment reimbursement, which is mainly attributed to unpredictable factors e.g. weather conditions, equipment overuse etc.

A certain advantage of TPF is that no initial capital is required from the user and thus the investment risk is undertaken by the third party. In this way the user's annual balance is not surcharged with additional costs. At the end of the investment the equipment comes to the user's ownership for utilization.

The apparent drawback for a wide implementation of TPF in Greece is the fact that the required procedures are not yet quite clear. Indicative issues that need to be addressed are the final ownership of equipment, the general energy market framework, the low cost of energy not being representative of the energy production costs, and the lack of relevant experience and awareness with TPF.

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