IMPLEMENTATION OF THE QUALITEE BUSINESS MODEL IN SLOVAKIA

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QualitEE Project

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Contents

1 EXECUTIVE SUMMARY

Great expectations were related to the idea of developing complex quality assurance scheme for energy services in Slovakia. These were linked mostly to the possibility of improved access to financing by energy services providers implementing certified projects. The general concept of the assurance scheme was discussed with all relevant stakeholders.

The concept and principle of the planned quality assurance scheme were introduced also to banks and financing institutions. Results of consultations with these counterparts showed, that the initial expectations were very optimistic and that the financing institutions will be not able to reflect the certification within their decision-making process in significant extent. This is a consequence of the actual practice of the banks where the standard assessment of credit risk of the final debtor plays crucial role in the decision-making process and the quality of the project has only negligible impact on it.

This means that any quality assessment would have only minor, if any, impact on the improvement of access to financing for energy services providers. And as the improvement and streamlining of financing was the most important reason for consideration of quality assurance scheme establishment, the interest of the energy services providers to participate in such scheme and to allocate significant resources (through the Association of Energy Services Providers) into its development almost vanished.

Following this development combined with the actual situation on the Slovak energy services market where quality of implemented projects was never an issue or barrier for the market development (on the contrary, the energy efficiency projects implemented through energy services are in general considered of higher quality compared to projects implemented in standard ways), a consensus was reached among relevant stakeholders, that there is not a market potential for development of complex quality assurance scheme. Consequently, a discussion on alternative ways for improvement of quality of the energy services provided was started.

As an alternative it was decided that incorporation of selected quality criteria into the European Code of Conduct for EPC in Slovakia should be the most effective approach for improvement of quality of the energy services in Slovakia in actual situation. This decision means, that there will be no real business model of quality assurance scheme as the demand for this type of product does not exist on the market. Instead, the so far successful voluntary commitments declared by signature of the European Code of Conduct for EPC in Slovakia will be extended by introduction of selected quality criteria into the text of the code of conduct.

Implementation of the developed approach for improvement of the quality of energy services in Slovakia will start immediately after approval of the wording of the Extended European Code of Conduct for EPC in Slovakia by the code national administrator – the Association of Energy Services Providers – APES-SK (www.apes-sk.eu). The decision to extend the actual wording of the European Code of Conduct for EPC in Slovakia by including selected quality criteria developed within the QualitEE project was already approved by the general assembly of the association held on February 24th, 2020. It is expected that the updated wording of the code of conduct will be approved until end of May 2020.

Practical implementation of the model will consist mostly in communication and awareness campaign focused on two primary target groups: 1/ Clients – public and private organizations that intend to implement energy efficiency projects and 2/ Energy services providers and facilitators – private companies that could be interested to make voluntary commitment to delivery their services in line with the Extended European Code of Conduct for EPC in Slovakia.

The communication campaign will start with official announcement about extension of the European Code of Conduct for EPC in Slovakia together with introduction of the first signatories.

The main target of the campaign will be increasing knowledge of the energy services market participants especially on the side of possible clients. This will be reached mainly by explanation of the individual quality criteria introduced through the Extended European Code of Conduct for EPC in Slovakia.

Additional broader support will be ensured through partnerships with relevant public bodies and professional associations. It is expected that the broad awareness of the market participants on the supply as well as demand side will lead to standardization of implementation of energy services projects in line with the QualitEE quality criteria in wider scale.

2 INTRODUCTION

The objective of this report is to provide information about the national implementation of quality assurance schemes for energy efficiency services (EES). This report has been developed as part of the "QualitEE – Quality Certification Frameworks for Energy Efficiency Services" project supported by the EU's Horizon 2020 programme. The QualitEE project aims to increase investment in EES and improve trust in service providers.

This report aims to cover the practical implementation of the model selected for Slovakia.

It will describe the basic idea of quality assurance for energy efficiency services in general, the idea of the national scheme and some facts about the development and implementation process of the national scheme (background).

3 THE CASE OF SLOVAKIA

3.1 Description

Quality of energy services and trust in energy service providers increased after implementation of EU directive 2012/27/EU on energy efficiency by Act No 321/2014 Coll. on energy efficiency. Under the provisions of the directive, it is at the discretion of the Member states whether to introduce an accreditation and certification system or an equivalent qualification system in the area of the provision of energy services. Slovakia chose plainer model of EES quality assurance – qualification of EPC providers.

So far, no formalized system of EPC projects quality assurance was implemented in Slovakia. Simple conditions for EES quality were given by qualification. According the law, EPC (or guaranteed energy service as defined in the Act 321/2014) may be provided only by holder of certificate about professional qualification for providing Guaranteed Energy Services or an energy auditor. Obtaining of the licenses is subject to passing of exam. All holders of the license are obligated to take part at updating specialized courses every three years. This measure is in place since 2015.

Additionally, European Code of Conduct for EPC is in Slovakia well established and promoted by Association of Slovak ESCOs (APES) and Energy Centre Bratislava. The self-declaration of ESCOs by signature of Code of Conduct can be found as a supportive measure for EPC quality. Slovak 4th National Energy Efficiency Action Plan even declares: “Additional way of EPC quality assurance is the ESCOs self-regulation by signature of Code of Conduct for EPC.”

The initial ideas for development of more complex quality assurance scheme in Slovakia were based on effort to improve and streamline financing of energy services projects by Slovak banks. This resulted from experiences from implementation of various Sustainable Energy Financing Facilities provided by the European Bank for reconstruction and Development (EBRD) in Slovakia. Consultants hired by the EBRD provided advisory to the clients and confirmed eligibility of the projects, quality of preparation and results after implementation to the cooperating commercial banks within these facilities. The plan for the quality assurance scheme was based on idea that the quality assessment provided within the scheme will eliminate need for technical capacities (provided by EBRD contracted consultants within the facilities) in the banks.

The above described ideas were discussed with energy services providers as well as with banks. These discussions showed that the initial assumptions were not correct. The reason is that the banks would like to have some assessment of quality of the projects at one side, but they will use it only in very limited extent in their decision-making on financing on the other side. This is a consequence of the actual practice of the banks where the standard assessment of credit risk of the final debtor plays crucial role in the decision-making process and the quality of the project has only negligible impact on it. This means that any quality assessment would have only minor, if any, impact on the improvement of access to financing for energy services providers. And as the improvement and streamlining of financing was the most important reason for consideration of quality assurance scheme establishment, the interest of the energy services providers to participate in such scheme and to allocate significant resources (through the Association of Energy Services Providers) into its development almost vanished.

Following this development combined with the actual situation on the Slovak energy services market where quality of implemented projects was never an issue or barrier for the market

development (on the contrary, the energy efficiency projects implemented through energy services are in general considered of higher quality compared to projects implemented in standard ways), a consensus was reached among relevant stakeholders, that there is not a market potential for development of complex quality assurance scheme. Consequently, a discussion on alternative ways for improvement of quality of the energy services provided was started.

The additional discussions led to following conclusions that form the basis for the actually proposed approach for improvement of quality energy services in Slovakia:

- As the intended complex quality assurance scheme can not bring any significant improvement in access of energy services providers to financing, there will be no demand for paid quality assessment of projects.
- Development of complex quality assurance scheme would be a waste of resources with the lack of potential demand.
- There are not significant problems with quality of energy services projects registered on the market.
- Further improvements in definition of the quality of the energy services projects are needed. The quality criteria developed within the QualitEE project should form a basis for this.
- It seems that the voluntary commitments of the energy services providers to act responsibly on the market declared through signature of the European Code of Conduct for EPC is in Slovakia provide quite good results in maintaining the quality of the energy services market.
- As the Code of Conduct for EPC is well established on the market, it should be used as the primary tool for promotion of additional quality criteria instead of development of additional product/channel.

Based on the conclusions listed above, it was decided that incorporation of selected quality criteria into the European Code of Conduct for EPC in Slovakia should be the most effective approach for improvement of quality of the energy services in Slovakia in actual situation. This decision means, that there will be no real business model of quality assurance scheme as the demand for this type of product does not exist on the market. Instead, the so far successful voluntary commitments declared through signatory of the European Code of Conduct for EPC in Slovakia will be extended by introduction of selected quality criteria into the text of the code of conduct.

3.2 Phases of quality assurance scheme procurement

3.2.1 Quality assessment criteria and compliance

The quality criteria presented below have been developed within the QualitEE project and are based on “preliminary quality criteria for energy efficiency services” developed for the Austrian market within the Transparense project.

This comprehensive set of technical, economic, communicational, and other criteria has been defined to be applied on energy efficiency services, with special focus on “Energy Performance Contracting” (EPC) and “Energy Supply Contracting” (ESC) in order to ensure minimum quality requirements which all services must comply with to be labelled as high-quality services.

The quality criteria selected have been object of discussion among stakeholders at both, national and European levels. Consequently, the feedback has been incorporated allowing us to present an extended and agreed set of criteria. These criteria are:

- QC1 Adequate analysis: the analysis of an energy-consuming unit (building, industrial establishment, facility, etc.) with respect to possible energy savings including the identification of possible energy efficiency improvement (EEI) measures is often the first step in an EES. The quality of analysis will thus, also have an enormous impact on the overall quality of EES.
- QC2 Quality of implementation of technical energy efficiency improvement measures: In many cases, the rendering of an EES is connected with the implementation of technical measures. A broad spectrum of quality standards can be met in practice while rendering services in this respect. QC2, therefore, stipulates a range of quality standards that must be complied with when implementing technical measures. In the process, compliance with such standards that regulate the implementation of technical measures is of paramount importance. Moreover, it must be ensured that the operator of the facility will be in a position to operate the newly installed facilities after the end of the project.
- QC3 Savings guarantee: some EES come with the promise that savings of a specific size will be realized. Such promises – routinely known as savings guarantee – must meet specific requirements for them to truly be beneficial to the client.
- QC4 Verification of energy savings: The identification and/or implementation of energy savings is at the center of EES. For this reason, the quality of an EES is also determined by the way that energy savings are verified. Energy savings cannot be measured directly but are always calculated. In simple terms, three approaches are differentiated:
  - Verification based on measured energy consumption: even in places where measurement equipment is available for the purpose of recording energy consumption, energy saving is determined through the comparison of the current value with a reference consumption (frequently called a "baseline"). At the same time, factors impacting energy consumption that are not caused by EES must be "filtered out" (often referred to as an "adjustment process" e.g. for the impact of variations in weather conditions);
  - Engineering calculation of energy-savings: usage of complex methods of calculation and simulation largely based on standards;
  - Expert estimation: derivation from savings realized from similar and comparable cases.
- QC5 Value retention and maintenance: some EES also cover services relating to the maintenance and repairs of newly installed or existing facilities. Quality of these services has a direct influence on the availability of the (energy) system and retention of its value. As these factors ensure desired benefits and long-term sustainability of projects beyond the contract duration, they also influence the overall quality of the EES.
- QC6 Communication between the contractor and the client: In addition to technical quality, the type and scope of communication between the EES provider and the client contributes to the quality of EES. EES providers assume only partial responsibilities from existing operating personnel. To avoid problems in the implementation of the EES the interfaces between contractual parties must be effectively managed through continuous and well-defined communication.

3.2.2 Evaluation of compliance

As the model for improvement of the quality of energy services in Slovakia is based on voluntary commitments of individual energy services providers that they will conduct their services in line with provisions of the European Code of Conduct for EPC in Slovakia extended by the selected quality criteria, there will be no evaluation of compliance of specific projects with the quality criteria.

3.2.3 Granting of the QualitEE label

As the model for improvement of the quality of energy services in Slovakia will be based on extension of the European Code of Conduct for EPC in Slovakia, no new label will be introduced as each signatory of the code is allowed to use the badge of the conduct signatory since signature of the code.

3.3 Main features

The main features of the QualitEE business model are found in the following table:

Table 1 - Main features for extended European Code of Conduct for EPC in Slovakia

	Code of Conduct for EPC in Slovakia
Principal action	Commitment
Country	Slovakia
Type	Voluntary
Target user	EES providers and facilitators
Authority	Association of Energy Services Providers
Phases	1. Incorporation of quality criteria into the European Code of Conduct for EPC in Slovakia 2. Self-commitment of EES providers and facilitators declared by signature of the extended European Code of Conduct for EPC in Slovakia
Stakeholders	1. Association of Energy Services Providers 2. EES providers and facilitators
Support measures/ dissemination	Information, events, and trainings
Year of implementation	2020
Costs	N/A

Source: ECB Analysis

3.4 Canvas analysis

3.4.1 Business Model Canvas Analysis

Table 2 - Canvas analysis

<table>
<tr>
<td rowspan="2">KEY PARTNERS
Association of Energy Services Providers
Individual energy services providers and facilitators
Clients interested in implementing EE measures through energy services</td>
<td>KEY ACTIVITIES
Promotion of the Extended European Code of Conduct for EPC in Slovakia
Administration of signatories of the Extended European Code of Conduct for EPC in Slovakia</td>
<td rowspan="2">VALUE PROPOSITION
Easy to perform due to pre-determined steps
Quality criteria developed by an external international consortium
International recognition</td>
<td>CUSTOMER RELATIONSHIP
Individual energy services providers and facilitators that sign the Extended European Code of Conduct for EPC in Slovakia
Clients willing to contract energy services providers and facilitators that signed the Extended European Code of Conduct for EPC in Slovakia</td>
<td rowspan="2">CUSTOMER SEGMENT
Individual energy services providers and facilitators that are self-committed to deliver their services in line with the Extended European Code of Conduct for EPC in Slovakia
Clients interested in implementing EE measures through energy services</td>
</tr>
<tr>
<td>KEY RESOURCES
Personal and financial capacities of the Association of Energy Services Providers</td>
<td>CHANNELS
Energy services providers and facilitators – internal communication within the association, awareness campaign
Clients – awareness and educational campaign, EFEKTIA competition (organized by the association)</td>
</tr>
<tr>
<td colspan="3">COST STRUCTURE
Not applicable – no additional costs</td>
<td colspan="3">REVENUE STREAMS
Not applicable – no additional revenues</td>
</tr>
</table>

Source: ECB Analysis

4 IMPLEMENTATION STRATEGY

4.1 Business opportunities

As explained in chapter 3.1 there is no demand for paid quality assessment/assurance scheme from the side of energy services providers and facilitator and thus no business opportunities have been identified in this relation.

4.2 Potential partnerships

The Association of Energy Services Providers will try to get official support for promotion of the Extended European Code of Conduct for EPC in Slovakia from the Ministry of Economy of Slovak Republic as the official governmental body responsible for energy efficiency and development of the energy services market.

Possibilities of additional partnerships will be examined among organizations and associations representing larger groups of potential clients. As examples of potential partners may be among others identified:

- Association of Hospitals of Slovakia (https://www.asociacianemocnic.sk/)
- Association of Slovak Spas (http://ask.sk/)
- Association of Industrial Unions (https://www.asociaciapz.sk/)
- Association of Towns and Municipalities of Slovakia (https://www.zmos.sk/)

4.3 Implementation strategy

Implementation of the developed approach for improvement of the quality of energy services in Slovakia will start immediately after approval of the wording of the Extended European Code of Conduct for EPC in Slovakia by the code national administrator – the Association of Energy Services Providers – APES-SK (www.apes-sk.eu). The decision to extend the actual wording of the European Code of Conduct for EPC in Slovakia by including selected quality criteria developed within the QualitEE project was already approved by the general assembly of the association held on February 24th, 2020. It is expected that the updated wording of the code of conduct will be approved until end of May 2020.

Practical implementation of the model will start with official announcement about extension of the European Code of Conduct for EPC in Slovakia together with introduction of the first signatories. It is expected that all members of the APES-SK will sign the Extended European Code of Conduct for EPC in Slovakia at this occasion.

As a next step a communication campaign will be started. This will be focused on explanation of the individual quality criteria introduced through the Extended European Code of Conduct for EPC in Slovakia. This shall help to educate the energy services market in Slovakia especially on the side of possible clients. The communication campaign will be coordinated with already well-established communication on EFEKTIA – an annual competition of energy efficiency projects (www.efektia.sk)

organized by the APES-SK with the aim to appreciate the effort of the clients to develop and implement high quality energy efficiency projects.

Broad utilization of the QualitEE quality criteria newly introduced into the European Code of Conduct for EPC in Slovakia will be supported by encouraging the prospective clients to request the signature of the Extended European Code of Conduct for EPC in Slovakia by possible contractors or to include reference to it into contract prepared.

5 MARKETING STRATEGY

5.1 Target groups

Even though the Extended European Code of Conduct for EPC in Slovakia will be not really marketed to customers, there are two important groups that will be targeted within the planned communication campaign:

- Clients – public and private organizations that intend to implement energy efficiency projects
- Energy services providers and facilitators – private companies that could be interested to make voluntary commitment to delivery their services in line with the Extended European Code of Conduct for EPC in Slovakia

5.2 Communication Plan

The communication campaign will start with official announcement about extension of the European Code of Conduct for EPC in Slovakia together with introduction of the first signatories.

The main target of the campaign will be increasing knowledge of the energy services market participants especially on the side of possible clients. This will be reached mainly by explanation of the individual quality criteria introduced through the Extended European Code of Conduct for EPC in Slovakia.

The content explaining the quality criteria will be promoted through different channels:

- Standard media
- Blog of APES-SK
- Public Relations
- Social networks

Additionally, two education workshops that will help bring together the supply and demand sides will be organized in 2020.

The communication campaign will be coordinated with already well-established communication on EFEKTIA – an annual competition of energy efficiency projects (www.efektia.sk) organized by the APES-SK with the aim to appreciate the effort of the clients to develop and implement high quality energy efficiency projects.

It is expected that campaigns in similar extent will be organized by the APES-SK also in following years.

6 ECONOMIC PLAN

This chapter is not relevant for Slovakia as the model for improvement of the quality of energy services in Slovakia will be based on extension of the already established European Code of Conduct for EPC in Slovakia and thus no additional costs will be needed and the implementation model does not envisage any incomes as well.

7 CONTINGENCY PLAN

7.1 Identification of potential risks

An analysis of the potential risks is summarized below.

Table 3 - Potential risks

Type of risk	Risk	Likelihood	Impact
Technical	n/a	n/a	n/a
Financial	n/a	n/a	n/a
Management	Adequate communication campaign will be not implemented	Low	Medium
Other	Signatories will not provide their services in line with the provisions of the code of conduct (including quality criteria)	Medium	Medium

7.2 Risk management

Potential risks will be monitored regularly by the APES-SK as the national administrator of the European Code of Conduct for EPC, that will apply specific mitigation measures if those risks are materialized.

Table 4 - Risk management

Risk	Mitigation measure
Adequate communication campaign will be not implemented	The planning of the communication campaigns is core own responsibility of the APES-SK. Should it be not possible to prepare or implement campaign dedicated to the Code of Conduct, the association will ensure inclusion of this topic into other campaigns.
Signatories will not provide their services in line with the provisions of the code of conduct (including quality criteria)	The APES-SK monitors the market development continuously. Should be a project implemented by the code of conduct signatory not meeting the provisions of the code identified, the association will notice the respective provider about the findings. Additional measures will be defined following seriousness of specific case.