

ESCO Development Activity in Nepal

After a series of discussions and debate with Key stakeholders related to ESCO activity development in Nepal, Nexant SARI/Energy has identified following issues that need to be addressed by various institutions:

1. Issues for Donor Community

Technical assistance:

1. Conduct targeted training programs, workshops and seminars to build capability and expertise among policy makers, ESCOs, energy consultants and financiers

The lack of consultants specifically trained to identify, design and implement energy efficiency and energy conservation projects was voiced as a major obstacle by all participants. The ESCO industry in Nepal is at a nascent stage and there is a vital need to support its growth and conduct training programs, seminars and workshops specifically targeted at policy makers, bankers, ESCO and customers. While the FNCCI and other organizations representing customers should actively take up the role of educating their members, there is a need for targeted technical assistance to train policy makers, ESCOs and financiers.

2. Assist in the design of an EE fund to stimulate ESCO projects

Given the economic environment in Nepal, high commercial rates of interest, and currency exchange rates, availability of finance is a key obstacle to implementing EE projects. The ESCO industry is just starting to get established and banks have practically no experience working with ESCOs to finance EE projects. There is thus a need to establish an EE fund that can finance ESCOs or their clients, and stimulate the market for EE services.

3. Support development of Performance Contracting and Monitoring & Verification guidelines

One of the key obstacles to ESCO operations is the lack of standardized and legally enforceable contracts. As evidenced from the discussions at the seminar, this is especially true of Nepal where the ESCO industry is at a nascent stage and ESCO, clients, and bankers have little or no experience with performance contracting. Standardized model performance contracts using the “guaranteed savings” approach can be developed for Nepal at relatively low cost by adapting the performance contracts developed for India and Sri Lanka to the Nepalese legal system of financing and contracting.

Similarly, Nepal has no experience with monitoring and verification protocols essential for ESCO operations. Again, they can be developed at relatively low cost by adapting the guidelines developed for India and Sri Lanka.

4. Support development of certification systems and standards and labeling for EE products and services

Standards and Labeling for EE equipment and appliances is a key policy mechanism to promote EE in the marketplace. This should be developed in conjunction with the EE legislation proposed to be developed for Nepal with support from Danida. Certification of EE service providers is another important policy element to build market confidence in a relatively new market service. The possibility of supporting the development of such systems should be closely examined and developed in concert with other donor agencies.

5. Support the formation of a National/ Regional ESCO Association

ESCO associations are vital to share experiences, lobby policymakers and financiers and create a market for EE and ESCO services. Given the relatively small size of the Nepal market, it may be too early to form an ESCO association in Nepal. However, support to the establishment of a regional ESCO association would greatly help ESCOs in all SARI/Energy target countries. SARI/Energy should consider supporting the establishment of such a regional ESCO association, development of a business plan for the association and identification of capacity building and resource needs.

6. Support the development of legislation that promotes EE

Danida is presently supporting the development of legislation in Nepal to promote EE. SARI/Energy should examine supporting this activity by providing targeted technical assistance to share the experiences of other countries in the region which have developed, or are in the process of developing, similar legislation.

7. Support peer exchanges among stakeholders in the region to share experiences with EE project financing and implementation

This is an essential activity that SARI/Energy is already supporting. Increased exchanges between ESCOs of the region and with other countries where ESCO are well established would support the maturing of the ESCO industry in the entire region. This should be done in conjunction with the development of a regional ESCO association.

8. Support the implementation of pilot projects to demonstrate the ESCO concept

SARI/Energy should consider providing technical assistance to support the implementation of pilot ESCO projects that will serve to demonstrate all aspects of the ESCO concept including project identification, design, implementation, baselining, monitoring and verification, performance contracts and financing. The SARI/Energy role could be in bringing together the key stakeholders and providing technical assistance to enable the project to materialize.

2. Issues For HMG, NEA & FNCCI

A concerted and coordinated effort will be required on the part of various stakeholders including policy makers in HMG, the utility NEA, and customer representative groups such as the FNCCI to stimulate the EE and ESCO market.

Based on debate and discussions at the seminar, some of the issues that the stakeholders should examine include the following:

Potential Role for HMG

- Enactment of the EE Bill or Legislation that promotes EE
- Establishment of Standards and Labeling for buildings, appliances and equipment
- Establishment of R&D institutions to research and test EE technologies
- Examine the possibility of introducing banking regulations that require financial institutions to give priority to investments in EE projects (similar to current regulations that require banks to give priority to renewable energy projects)
 - Consider establishing an EE fund with support from multilateral banks and/or make available soft loans to stimulate the market for EE products and services
- Implement EE projects in public buildings through ESCOs and consider financial assistance for pilot projects to demonstrate the concept
- Examine providing depreciation and other tax benefits for EE investments and equipment

Potential Role for NEA

- Promote and implement Demand-side Management programs through ESCOs
- Consider using the ESCO principle to implement projects to reduce system losses and improve distribution efficiency.
- Implement a cost-based tariff structure that encourages implementation of EE
- Integrate DSM impacts in an Integrated Resource Plan to meet energy demand

Potential Role for FNCCI

- Support the formation of a National/ Regional ESCO Association
- Support development of Monitoring & Verification guidelines
- Support development of certification systems for EE products and services
- Support the development of standardized Performance Contracts to implement ESCO projects
- Conduct targeted training programs for policy makers, customers, ESCOs and financiers
- Act as a clearinghouse for information on ESCO and EE products
- Work with manufacturers of EE equipment and appliances to stimulate the market for EE products