Interim status report of the establishing of SPINs

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Content

1. Background information on the establishment process of national SPINs

1.1. About the EPC+ project

Usually energy efficiency services are offered by one provider. However, energy efficiency services (EES) can be offered through cooperation as well. The EPC+ project aims at developing and promoting new business models for the implementation of innovative energy efficiency services through cooperation of Small and Medium-sized Enterprises (SMEs).

Such innovative energy efficiency services (EES) can be offered in form of energy performance contracts (EPC). According to Energy Efficiency Directive (2012/27/EU) EPC means a contractual arrangement between the beneficiary and the provider of an energy efficiency improvement measure, verified and monitored during the whole term of the contract, where investments (work, supply or service) in that measure are paid for in relation to a contractually agreed level of energy efficiency improvement or other agreed energy performance criterion, such as financial savings. The European standard EN 15900 about energy efficiency services (EES) defines an EES as an agreed task or tasks designed to lead to an energy efficiency improvement and other agreed performance criteria.

Cooperation enables SMEs to provide novel and high quality energy efficiency services, which could not be provided by a stand-alone company. Such innovative services are serious alternatives to standard services provided by a single energy service providers (ESPs) and may provide promising opportunities. An 'energy service provider' (EED 2012/27/EU) means a natural or legal person who delivers energy services or other energy efficiency improvement measures in a final customer's facility or premises. Within this report we use the terms energy service provider and energy service company (ESCO) interchangeable.

On the hand the EPC+ approach will create more competition among ESPs, especially among the ones which provide energy efficiency services, whilst on the other hand it leads to new market demand and additional money flows. Through cooperation of SMEs a certain new market potential arises. Advantage can be taken of this business opportunity.

Within the frame of the EPC+ project the cooperation of SMEs with the aim to offer joint EES to the market is called a *SPIN*. Such *SME Partnerships for Innovative Energy Services* are organized clusters of independent companies that jointly supply novel energy efficiency services to existing or new customers. The most important feature of these SPINs is that they are composed of market actors that offer complementary services to each other. Therefore, they are not competitors with conflicts of interest. The partnership sets commonly agreed objectives, valid for a structured and long-term cooperation.

Consulting companies, ESPs, technology suppliers, HVAC engineers, etc. are the enterprises that will establish the SPINs and apply various technical, organizational and financial packages developed within the EPC+ project.

Please visit www.epcplus.org to learn more about the project and results.

1.2. Establishment process of national SPINs

This report aims at the documentation of the SPIN establishment process of EPC+ partners. Also this document serves as a risk management report in order to identify serious risks in the early phase of the EPC+ project.

It is estimated that on average 3-5 SMEs will be involved in each SPIN. Some SPINs may have more SME-partners, depending on the diversity of the energy savings measures to be implemented.

As the concept of a SPIN – SME partnership for innovative energy services – is quite unique, the establishment process is crucial. Very likely such a SPIN development process is going to affect the strategic planning and strategic decisions of most of the SPIN partners. The development of, and entry to, a SPIN forces enterprises to think outside of the box, as the collaborative supply of energy efficiency services is not trivial and widely spread. Conventional collaboration is mainly carried out in form of subcontracting. However, the collaboration within a SPIN opens the focus of all of its members and brings rights and duties to them. Hence, a SPIN goes beyond the scope of subcontracting.

The collection of *Letters of Support* (LOS) was a first attempt of EPC+ partners to get in touch with potential SPIN members prior to the project start. More than 50 LOS – mainly other ESPs and technology suppliers – were collected in 11 partner countries with their intention for participation in SPINs and pilot projects. EPC+ partners selected potential SPIN members on the basis of a preliminary market assessment in order to detect first business opportunities and directions of organisational structures. Therefore, LOS represent a solid starting basis for the development of national SPINs.

Within the first five months of the project EPC+ partners were asked to approach their LOS partners as well as other suitable SMEs. This task aims at bringing together promising SMEs during a first official SPIN workshop between July and September 2015. In total two workshops are envisaged per project partner and have to be carried out until December 2015.

In order to keep track on EPC+ partner activities an online tool was established which has to be updated by partners on a regular basis. First results can be found in this report.

It can be summarised that the launch of national SPIN development processes led to internal strategic developments in most of the EPC+ partner institutions. It can be derived that company’s long-term objectives and target-setting are prerequisites to start such a SPIN development process, depending on the role of the EPC+ partner in the SPIN. If an EPC+ partner aims to facilitate such SPIN development processes only, no (or to a very little extent) internal strategic process will be started. But, if an EPC+ partner wants to have a leading role as innovative energy service supplier, their objectives and targets need be clearly defined and set.

In order to keep the complexity of SPIN development manageable, during the monthly Project Steering Committee meeting it was decided to train EPC+ partners online by the WP2-core team. A first internal training (12th August 2015) covered following aspects:

- Organisational development of SPINs
    - Which type of SPINs are available (D2.2);

    - What roles are available and what can be the role of the EPC+ partner (D2.2);
- Organisational tools to enhance the SPIN development (D2.3)
- Market assessment (WP2/WP4)
    - Application of the business model canvas in your company;
    - Supply and demand side factors;
- Workshops
    - Agenda of the SPIN establishment workshop (D2.6);
    - Application of the business model canvas together with potential SPIN members in order to assess the market.

The online training session was recorded. The whole session is accessible via google drive to all EPC+ project partners. Parts of the video will be uploaded on www.epcplus.org.

A detailed market assessment will be part of the final status report of the establishing of SPINs (D2.5). For this reason partners are also trained to apply a business model canvas. This will help to identify business and supply opportunities and very likely missing SPIN members. The assessment refers to the demand side (potential markets and opportunities) as well as to the supply side (competitors and their services).

It turned out that the first 5 months were too early for partners to undertake a detailed market assessment. First of all, internal processes had to be kicked-off, which can be timely. Lots of informal discussions and persuading with internal and external decision makers are required to obtain a full commitment to go further with a market assessment and the SPIN development process. In recent months partners put their whole capacity in explaining the idea of EPC+.

First contacts have been made and first informal meetings have been carried out, especially with LOS partners. During the next months partners are asked to carry out a market assessment. The market assessment is either carried out in advance by the EPC+ partner or it is carried out together with potential SPIN partners during the first official workshop. As EPC+ partner already have a good idea about their national market conditions as well as business opportunities it might be meaningful to conduct the market assessment within the frame of the workshop, but this depends on the national circumstances.

Accompanying the development process Organisational Tools for the SPIN development process (D2.2 and D2.3) evolved. These deliverables are very useful in supporting the development process of a SPIN. The documents help potential SPIN members and SPIN facilitators to understand the potential structures, roles and contractual issues of a SPIN.

1.3. Development level of the national EPC markets and existing SPINs

13 EPC+ partners from 11 different European countries participated in the project internal survey. In the following Table 1 a list with EPC+ partner institution can be found, their EPC market development level as well as the presence of a SPIN on their markets.

Table 1: Development level of national EPC markets and market presence of SPINs.

Country	Company name	EPC market development level	SPIN(s) on the market
Austria	e7 and GEA	Advanced	No
Belgium[1]	Factor4	Intermediate	Yes
Bulgaria	BSERC	Beginner	No
Czech Republic	SEVEn	Advanced	No
Germany	ASEW	Advanced	No
Greece	CRES	Beginner	No
Ireland	TEA	Beginner	No
Italy	ESCOIT	Intermediate	Yes
Portugal	ISR-UC	Intermediate	No
Slovenia	JSI	Intermediate	No
Spain	Escan	Intermediate	No

The market development level of the participating partner countries varies. A qualitative assessment shows that 3 out of 11 countries describe their EPC market as Advanced. 5 out of 11 countries describe their EPC market as Intermediate and 3 out of 11 describe their market as a Beginner market.

Only in Belgium and Italy it was highlighted that certain forms of SPINs already exist. In all other countries no SPINs are present on the markets. In most of the cases collaboration is limited to bilateral agreements on a subcontracting basis or in form of joint-ventures. In some countries it was mentioned that formal or informal networks exist, but do not support the development of SPINs.

With respect to market presence of SPINs Belgium and Italy are pioneers. In Belgium already three designated SPINs are present. In the following they are explained in a brief:

- SPIN 1 is an existing simple SPIN. Factor4 is the principal with more than 5 associates. The focus is mainly on EPC services. Factor4 is responsible for marketing, sales and contract with clients, project management while the associates are experts in specific fields such as lighting, heating, cooling etc. and work as subcontractors for Factor4. Factor4 has a master service contract with each of the associate and concrete transactions are based on service level agreements based on deal specific terms.
- SPIN 2 is an existing Complicated SPIN with Factor4 in Belgium and Boot Advocaten in the Netherlands that has resulted in a joint venture (Factor4 Netherlands) since a few months. The focus is on EPC services for the public and private sector in the Netherlands. Factor4 brings in the

[1] The EPC market development level in the Netherlands was indicated as Beginner by Factor4.

expertise related to EPC contracting and technical expertise (including SPIN 1 associates) while the other partner brings in legal expertise and local networking.

- SPIN 3 is a Complicated SPIN under development with Factor4 and two (to four) non-disclosed partners. Focus of this SPIN is to provide EPC services including third party financing for multi-unit residential buildings in Belgium. One of the other partners is a financial broker with a strong expertise in negotiating financing with banks on behalf of co-owners of multi-unit residential buildings.

Definitions on Simple, Complex and Complicated SPINs can be found in chapter 4.1.

In countries like Greece, Austria or Ireland a couple of ESCOs are already on the market. In Greece for instance, the EPC market is in an infant stage. Although there are 29 energy service companies registered in the Hellenic Energy Service Company Register, very few of these companies have implemented EPC projects. In contrast, the Austrian market comprises about 25 EPC suppliers, but “the Austrian ESCO market, in particular the EPC market, is considered a highly developed market, close to German standards” (Bayer, G. and Auer, M., 2013)[2].

A sound EPC market overview on 20 European countries can be found at www.transparense.eu.

2. Phases of SPIN development

The survey subdivided six different phases with respect to the current SPIN development process. In the following Figure 1 the phases are given.

Figure 1: Phases of current SPIN development (green color: phase completed; orange color: phase ongoing; red color: phase (predominantly) not started) (Source: e7).

The identification phase of potential SPIN members and the informal contact phase have been successfully completed by all partners. The informal contact phase comprises phone calls and personal meetings on a bilateral basis with potential SPIN members in order to describe the goals and targets of the EPC+ project and the idea of the collaborative provision of innovative energy efficiency services.

Each partner is currently working on the compilation of a national SPIN and organises/conducts the first upcoming workshop. Beside Factor4 in Belgium and ASEW in Germany, none of the EPC+ partners have conducted a first official workshop. In Belgium, Germany and Greece (CRES) the national SPIN is already in the establishment phase (although the Greek SPIN has yet to hold its first “official” workshop - an informal

[2] An overview of Austrian ESP can be found here: http://www.deca.at/view_site/site.php?lang=de&mid=77.

workshop however has been held). Only in Belgium SPINs (number 1 and 2, as explained above) are in the start-up phase, and one out of two of those SPINs is in the growth phase.

3. Recruitment of potential SPINs

3.1. Informal recruitment activities

All of the EPC+ partners have carried out first informal recruitment activities. Most of the partners approached potential SPIN members on phone or during other occasions, like project meetings. On the one hand, some partners started to with internal strategic meetings (e.g. e7 and GEA in Austria, SEVEn in the Czech Republic, ASEW in Germany). On the other hand, first informal meetings with potential SPIN members were ongoing, either bilaterally (GEA in Austria, SEVEn in the Czech Republic, ASEW in Germany, JSI in Slovenia, BSERC in Bulgaria) or with several potential SPIN members (CRES in Greece, ESCAN in Spain, ISR-UC in Portugal, BSERC in Bulgaria). Some partners envisage further informal recruitment activities, e.g. e7 as well as SEVEn will have further internal meetings and Escan, JSI, BSERC and GEA will have bilateral meetings with potential SPIN members.

According to the project targets, on average, about 3-5 SME's should be part of a SPIN. At the moment two countries have only two SMEs on board and two project partners will have about ten SPIN partners. Most of the SPINs will cover about 4-5 members.

Four project partners have undertaken other recruitment activities. The Belgian partner Factor4 has finalised a first SPIN contract and a Non-Disclosure Agreement (NDA) with some of its members. In Germany potential SPIN partners try to integrate other members in the SPIN activities. In Greece, the SPIN, as well as the partner, are currently discussing with the Hellenic Confederation of Commerce and Entrepreneurship (HCCE). HCCE is very interested in the project and thinks that it will have substantial benefits for their members. The current SPIN partners are considering the direct involvement of HCCE in the SPIN as an observer/facilitator. Their main role in the SPIN will be to bring their members into contact with the SPIN and to encourage cooperation and business transactions. In Portugal collaboration with other Horizon 2020 projects related to EPC (e.g. Investor Confidence Project; TRUST South) are envisaged.

3.2. Upcoming workshops

In Table 2 an overview on upcoming SPIN workshops is provided. According to the grant agreement the first official workshops should have been held in June 2015. The second round of workshops should be completed by December 2015. However, as it turned out that the initial time line is not realistic, most of the partners are going to conduct the first workshops in September 2015. This has been already reported to EASME and positively approved (Email from the PA on 10 August 2015).

The second round of workshops will be held in November/December 2015. So the completion of both workshops until the end of 2015 is not at risk.

Table 2: Overview on upcoming SPIN development workshops.

Country	Partner	Envisaged SPIN workshops
AT	e7	Meeting 1: September 2015
		Meeting 2: November 2015
AT	GEA	Meeting 1: September 2015
		Meeting 2: November 2015
BE	Factor 4	Meeting 1: July 2015 (SPIN 1)
		Meeting 2: December 2015 (SPIN 1)
BE	Factor 4	Meeting 1: August 2015 (SPIN 3)
CZ	SEVEn	Meeting 1: September 2015
		Meeting 2: October 2015
DE	ASEW	Meeting 1: 20 July 2015
		Meeting 2: November 2015
EL	CRES	Meeting 1: September 2015
ES	ESCAN	Meeting 1: September 2015
PT	ISR-UC	Meeting 1: September 2015
SI	JSI	Meeting 1: September 2015
		Meeting 2: September 2015
BG	BSERC	Meeting 1: September 2015
IE	TEA	Meeting 1: September 2015
		Meeting 2: November 2015
IT	ESCO ITALIA	Meeting 1: Mid-September 2015
		Meeting 2: November 2015

In addition, WP2-leader provided project partners with a template (D2.6 and D2.7) in order to report properly on the workshops. Also the template serves as workshop guideline and suggests i) a certain agenda as well as ii) questions, with respect to the market assessment and potential organisation of the SPIN, which have to be answered.

3.3. Difficulties and surprises

During the SPIN development process, the following difficulties could be detected:

- Partners indicated that the development of a suitable company strategy turned out to be more difficult than initially expected. This is due to the fact that the participation and management of a SPIN needs proper preliminary work. A company’s long-term objectives and target-setting are prerequisites to start such a SPIN development process, depending on the role of the EPC+ partner in the SPIN.

- For some partners it turned out to be challenging to convince potential SPIN partners to participate in an upcoming workshop and potentially in an upcoming SPIN. EPC markets in some European countries are young and so far not very successful especially for SME's in the energy services sector, therefore little knowledge and understanding to date.

- Another partner mentioned that the biggest difficulty is to decide on the business sector that the SPIN will be targeting, also against the background of unclear governmental policy in terms of financing model of public buildings renovation.
- Furthermore, due to the current severe financial crisis in various European countries (e.g. Greece), finding a source of financing for the pilot projects will be the greatest difficulty.
- Besides, it is challenging to identify the best suitable type of SPIN and the respective role of each partner within the SPIN. Related to this issue, also legal aspects should be considered.

Following surprises could be found:

- It was surprising to see that the SMEs participating in the SPIN are enthusiastic about the project, despite the severe economic difficulties of the financial market in Greece (i.e. capital controls etc.). Without a doubt, one of the few positive effects of the current financial crisis in Greece is that it has stimulated innovative business ventures as SMEs (and businesses in general) try and overcome the difficulties posed to them by the financial situation.
- The complexity of a SPIN, even a “simple” SPIN.

4. Upcoming SPINs

4.1. Categorization of SPINs

Within D2.2 a categorization of potential SPINs has been undertaken, which can be grouped as follows:

- Simple SPINs,
- Complex SPINs,
- And Complicated SPINs.

In Figure 2 different SPIN types and connection strengths of a SPIN can be found. Type A refers to a Simple SPIN, type B to a Complex SPIN and type C to a Complicated SPIN. Details on the organizational structures as well as roles of participants can be found in Van Agtmaal, E. and Coolen, J. (2015).

A first assessment shows that – very likely – the majority of project partners are going to establish a Simple SPIN. According to Van Agtmaal, E. and Coolen, J. (2015) “a Simple SPIN is a formal organization with one leading partner, referred to as the ‘principal’ and partners, referred to as the ‘associates’, but without (much) interactions between these associates. An example is an ESCO working with, often smaller, subcontractors. The number of associates depends on the expertise or domains covered by the SPIN and the total amount of work.”

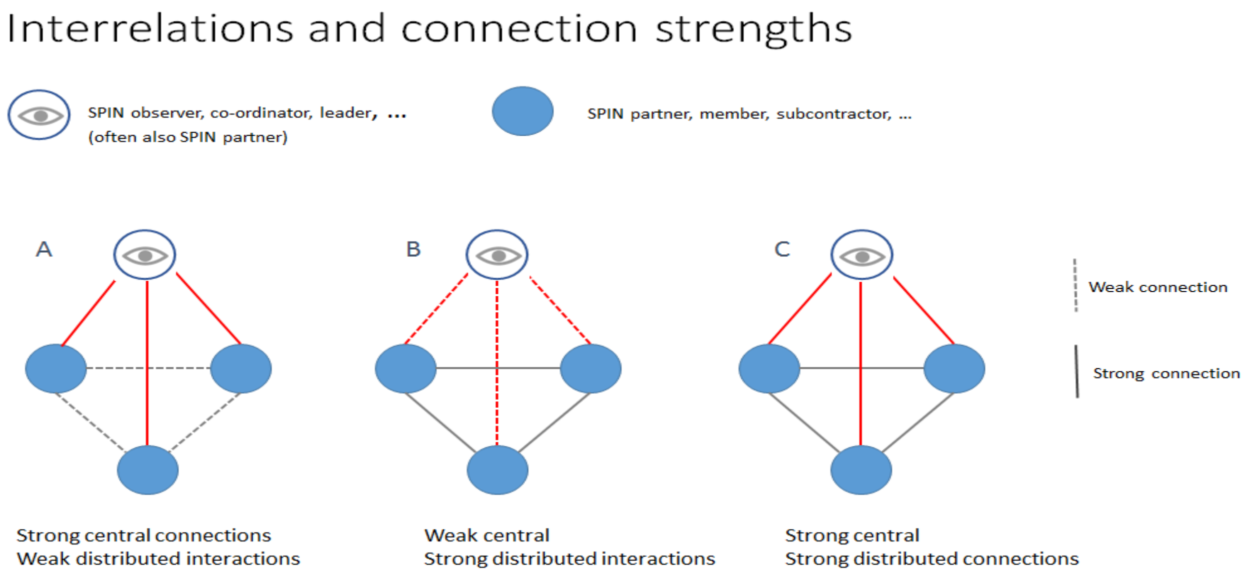

Figure 2: Different SPIN types and connection strengths of a SPIN (Source: Van Agtmaal, E. and Coolen, J., 2015).

In Greece the envisaged SPIN type will probably be a hybrid Simple/Complex SPIN. According to Van Agtmaal, E. and Coolen, J. (2015) "a Complex SPIN is a complex adaptive structure. It is a more informal, self-organising, network of several SMEs, referred to as the 'members'. One or more partners, referred to as the 'coordinator' in the SPIN can take the initiative to facilitate and strengthen interactions in the network. Outcomes are the result of dynamic emergent patterns of interaction between all partners willing to exchange knowledge and share (future) business opportunities but the exact outcomes of the interactions are not known beforehand."

Only in Belgium (SPIN 2 and SPIN 3) Complicated SPINs are in the establishment phase currently. According to Van Agtmaal, E. and Coolen, J. (2015) "a Complicated SPIN is a formal collaborative network of SME's with strong connection strengths between all partners, referred to as 'partners', and a collective central control. Responsibilities and tasks are split and allocated to the different partners in the SPIN. A more leading role could be assigned to one partner, referred to as 'leading partner'. The decision making process and how transactions are executed have to be defined before the creation of the SPIN. Complicated SPINs are difficult to create because of the large number of aspects to agree on between all partners. Collaboration can be based on a contract between all partners or within a new legal entity (e.g. a joint venture). Partners in a Complicated SPIN could be Simple SPINS itself."

4.2. Potential SPIN partners and pilot projects

At this point in time the EPC+ project team decided not to publish a list with SME's potentially participate in the upcoming SPINs. EPC+ partners see the publication of a list with potential members as critical, due to following facts:

- The list with potential SPIN members in each partner country is far from finalised and no official acceptances from potential SPIN members have been obtained.
- The development of a SPIN and its sudden market presence provides a competitive advantage to the EPC+ partner, which partners do not want to gamble away in such an early development phase.

Also on this basis it is too early to predict who is going to be the contact institution (and person) as well as the coordinator of the upcoming SPIN. However, in most of the cases it is likely that EPC+ partners will have the role as principal or coordinator.

Four partners already indicated that they have potential pilot projects at hand. However, the EPC+ project team decided not to publish a list with potential pilot projects at this point in time, as there are no official confirmations at hand yet.

5. Risk management

No urgent risks could be detected within the frame of the first interim status report on SPIN development. Nevertheless, following points have to considered:

- The development of a suitable company strategy turned out to be more difficult than initially expected.
- At this stage not enough SMEs could be identified to reach the goal of 3-5 members per SPIN and project partner respectively not enough SMEs could be identified to participate in an upcoming workshop.
- Due to limited financial capacity in some partner countries it will be very challenging to initiate pilot projects.
- The first workshops are delayed to September 2015 as the initially set timeline was too tight. Completion of the first round of workshops stipulates an extremely important deliverable.
- Due to the current severe financial crisis in various European countries finding a source of financing for the pilot projects will be the greatest difficulty.

During the next months, and especially during the monthly Project Steering Committee meetings as well as WP2-training(s), awareness of partners has to be risen in order to find a sufficient number of SPIN members, and to accelerate the search of pilot projects. Also the focus should be given to the learning from pioneer partners. Especially Factor4 possesses the most experiences and will share their knowledge during WP2 trainings.

6. References

Bayer, G. and Auer, M., 2013 (2013): Country Report on Identified Barriers and Success Factors for EPC Project Implementation. Austria. Deliverable 2.4.Developed within the frame of the IEE project Transparense.www.transparense.eu.

Van Agtmaal, E. and Coolen, J. (2015): Organisational tools for SME Partnerships for Innovative Energy Services. Deliverable 2.2.Developed within the frame of the Horizon 2020 project EPC+.www.epcplus.org.