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ENERGY SERVICE CONTRACTS IN UKRAINE: ADVANTAGES AND DISADVANTAGES

Let us consider the basic concepts related to energy service companies (table 1) [1].

Table 1 – Basic terms and their characteristics

CONCEPT	CHARACTERISTIC
ESCO (energy service company)	Is that the private investor performs thermal modernization. The investor finances it from its own funds and can make a profit due to the savings achieved on utility bills.
ESCO-mechanism	A relatively new tool for financing thermal modernization projects in apartment buildings from energy service companies.
ESCO-contract	It assumes that the investor implements energy saving measures in an apartment building at his own expense. He returns these funds from the savings received to pay for the consumed resources. Then, due to the same savings, it makes a profit within the time period specified in the contract. One of the conditions of the ESCO contract is a mandatory energy audit of the house. Since the investor assumes the risks of savings due to the implemented project, he is directly interested in preliminary calculations of potential savings. Based on the data obtained during the energy audit, the payback of the investment project is estimated and the term of the ESCO contract is calculated.

For the public sector, the conclusion of energy service contracts has a number of advantages and disadvantages (table 2) [2]. As a result of the study, we conclude that the mechanism of energy service contracts is very attractive for the public sector. Such a mechanism does not require an increase in budget expenditures, and financial, economic and technical risks are borne by the contractor of the energy service.

Table 2 - Advantages and disadvantages of the ESCOs model

ADVANTAGES	LIMITATION	RISKS
Energy efficiency of municipal infrastructure and state property is increased at the expense of ESCO, and not at the expense of budget funds.	The customer will feel a significant economic effect from the introduction of energy efficiency measures only at the end of the contract. Since the savings will be received by the energy service company in payment for services rendered. During the operation of the energy service contract, the monetary savings will fluctuate in the range of 3-10%.	CUSTOMER RISKS: - selection of a low qualified energy service company; - not properly spelled out in the contract the responsibility of ESCOs, in particular regarding the reimbursement of the budget, the economy of consumption of primary energy resources and housing and communal services, the conditions, procedure and consequences of termination of the contract.
ESCO guarantees the achievement of fuel and energy savings and housing and utilities.		ESCO RISKS: - providing the customer with inaccurate or incomplete information about the object-heated area, the basic level of consumption of primary energy resources and housing and communal services, the mode of use, the temperature of the interior (cases of non-compliance sanitary requirements for temperature and lighting); - unskilled operation of the equipment by the customer; - lack of insurance products adapted to energy service contracts; - lack of opportunities to attract long-term loans and obtain loans secured by cash flows for energy service contracts; - insolvency of the customer, in particular the delay of payments for energy services.
Energy service companies are interested in high-quality implementation of projects, compliance with the schedule of their implementation and appropriate management. Since this directly affects the level of achievement of savings and, accordingly, profit ESCO.		
Return on investment is only due to the savings achieved and does not require an increase in budget expenditures.		
As a result of implementation of energy-efficient projects: - increases the comfort of staying in the premises of buildings; - extended service life of buildings.		

References

1. What is energy service (ESCO). [Electronic resource.] – Access mode: <https://thermomodernisation.org/esco/>
2. Energy service contracts-an effective tool for financing energy efficiency projects: manual. [Electronic resource.] – Access mode: https://decentralization.gov.ua/uploads/library/file/282/Guideline_-_ESCO.pdf