

Setting up an energy agency and other creative ways for financing energy transition



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Municipalities across the world are working with their communities to deliver an inclusive and sustainable energy transition at the local level. This process requires resources, both in terms of funding and capacity as it often entails the need for reorganization of internal structures, as well as the integration of new competencies and approaches to energy planning.

Local energy agencies have proven to be a successful tool to support and facilitate municipalities in implementing the local energy transition.

Local energy agencies are independent entities, with municipal participation that can support in the promotion of renewable energy sources, energy efficiency measures and reduction of energy consumption in both the public, private sector and the community.

They can play a key role in supporting the implementation of local sustainable energy policies, providing technical assistance in the design of energy projects and the dissemination of information; they can also support local development by acting as an intermediary between the local/regional authority and local/regional stakeholders of the energy market.

This factsheet shares several examples and different strategies with a long track record of successful operation. These encompass different approaches to the issues, from strictly internal mechanisms to more widespread schemes including the private sector: either through innovative financing mechanisms, synergistic approaches to financing or grassroots, community-led projects with citizens' participation.

Energy agencies have been a common feature in many Local Governments in Europe and have been strongly promoted and supported by European policies, but can their model be applied in different contexts around the world?

Looking at the main characteristics of existing and long-term successful experiences, it is clear that the role of energy agencies, or any similar intermediary structure, is critical for the success of energy transition policies.

In fact, most energy agencies focus their work around **three key areas** including:

- **Information/advice to citizens,**
- **Technical assistance to public authorities and**
- **Facilitation of access to the market**

They can enable national, regional and international partnerships that contribute to widespread dissemination, exchange of experience, capacity building and capturing financing. Energy agencies can also contribute and work closely with networks (e.g. ICLEI) and have a strong supporting role to initiatives such as the Global Covenant of Mayors for Climate and Energy.

Most energy agencies count a variety of stakeholders directly involved in their set up. These range from the main actors in the different sectors of the energy system, to national regulatory bodies research and development institutions, as well as community organizations. Hence, they can function as a **local forum for debating energy issues and policies and finding common grounds, offering a formal platform for discussion.**

In addition, energy agencies can play an essential role in exploring financing strategies to be used for local climate action and providing technical support for project development.

TIP: Local Governments mandate to decide upon public energy consumption and related investments as well their competency on legally binding regulation on local energy planning is a key precondition to the creation of such entities.

Where a typical energy agency is not suitable for a specific context, Local Governments can instead explore how to establish an internal team to support with similar functions and tasks- i.e. help build a tailored strategy, support access to finance, etc. This team could form an internal unit within the Local Governments, an independent mostly publicly funded entity with private cooperation or a fully private institution. The common features of this model include a manageable team, usually no more than six persons, with high technical, communication and policy support¹ competencies. [More info](#)

Setting up a local energy agency - Administrative models

There is a wide spectrum of structures which can be used to establish energy agencies. These can be categorized under four broad models, defined by their ownership structure, the legal status, the mandate and the financial support:

1. Internal unit or department, fully contained within a public authority;
2. Intelligent Energy Europe Programme (IEE)¹ Model - independent, mostly publicly funded, not-for-profit agency with a broad long-term mandate from the public authority, and financially supported almost entirely by the authority;
3. Public/private - independent, partly privately funded, not-for-profit agency, with a broad long-term mandate from the public authority and a management board chaired by the authority, but with significant support (including financial support) from other partners having a shared mission;
4. Consultancy - independent organisation, often commercial, whose establishment was triggered by work for a public authority, but which carries out short term mandates that are limited in scope to individual projects.

1 - IEE - Intelligent Energy Europe



Setting up a local energy agency - the example of AGENEAL

The Local Energy Management Agency of Almada, AGENEAL, is a private, non-profit association created in the framework of the SAVE Program on March 30th, 1999. Its objectives are to contribute to increase the energy efficiency in Almada, through the rational use of energy and to improve the use of endogenous energy resources, and to establish as a Local Platform or Forum for energy and climate. Currently, AGENEAL has 20 associates/stakeholders ranging from the City Council to Public Transport Operators, Water and Energy Utilities, University and several other Private Companies.

The municipality retains a key level of control, but AGENEAL is not a council organization. Thus, AGENEAL is seen as independent and impartial. All partners remain committed and have come to value AGENEAL as a facilitator and broker for complex energy issues. This was triggered by work for a public authority, but which carries out short term mandates that are limited in scope to individual projects.

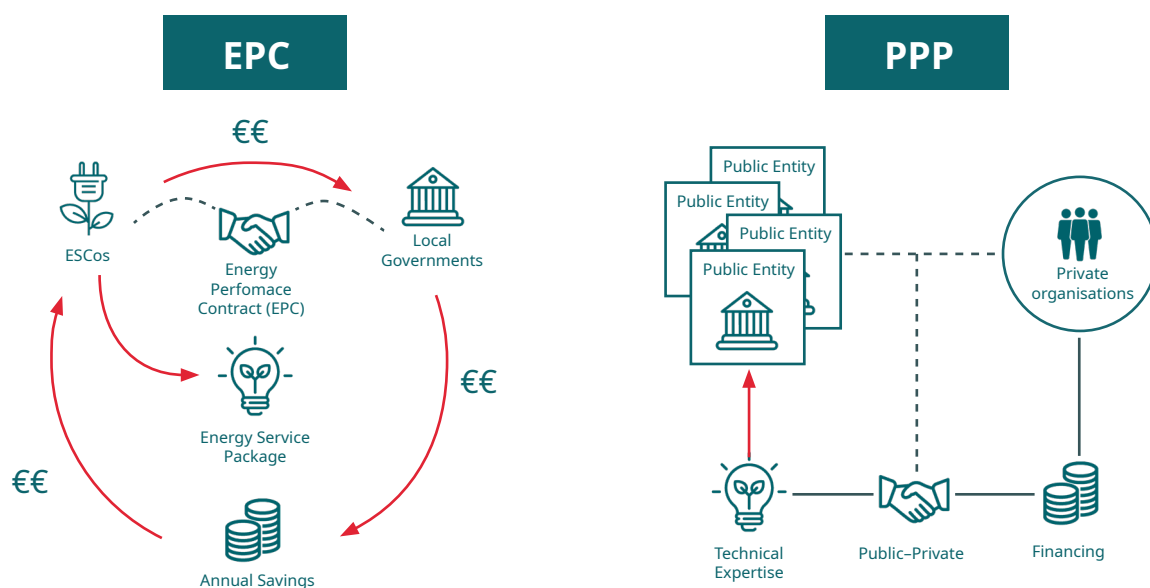
Innovative mechanisms for energy transition financing – streamlining the implementation of successful energy efficiency measures

Usually, Local Governments have limited budget and cannot single handedly invest the resources needed to implement the all-comprehensive cost-effective measures needed to drive the energy transition. Energy agencies can help them navigating these challenges, by investigating suitable mixed approaches, using several funding sources in the most efficient way:

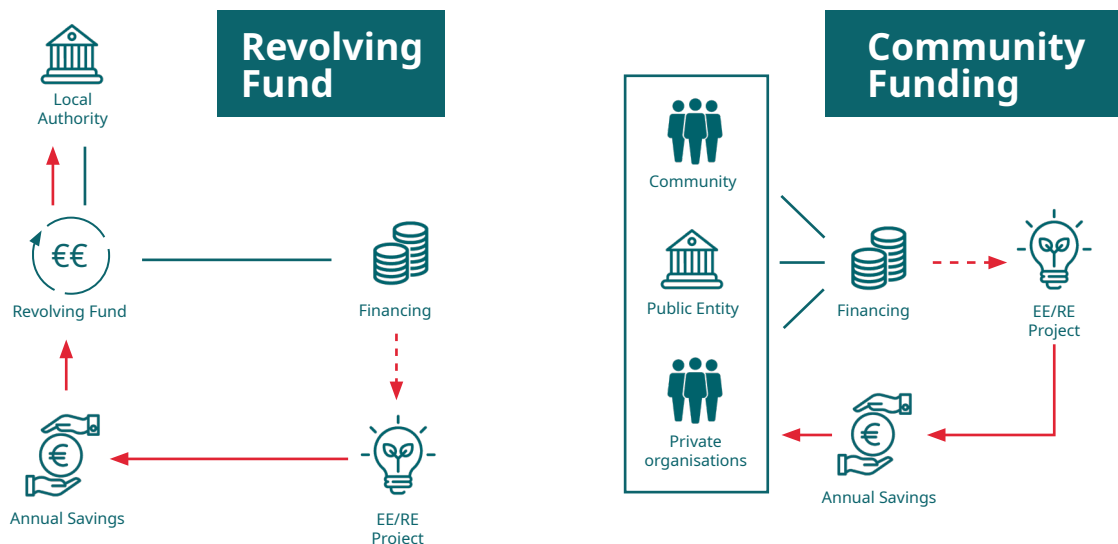
- **International funding (World Bank, Development Aid, etc)**
- **National/regional funding**
- **Local/own funding**

Blended finance requires a strong strategic planning from the Local Governments, to plan projects on the long term and implement them step by step. The energy agency can provide valuable support in offering technical know-how and capturing financing opportunities for each step. Energy agencies can also help Local Governments to identify a variety of viable funding mechanisms, for example:

- **Energy performance Contract (EPC)** - a contract where an array of services is agreed and the provider of the services is able to guarantee that a minimum of energy savings and/ or sustainability value will be achieved. An Energy Service Company (ESCO) implements a customized energy service package, consisting of planning, building, operation & maintenance, optimization, fuel purchase, (co-) financing and user behaviour
- **Public Private Partnerships (PPP)** - typically a long-term cooperation arrangements between one or more public entities and a private organization, where there is a sharing of the risks between partners. The aim of this relationship is to use public policies and regulations to leverage private sector financing, who will receive payments from the public entity for providing a defined service.
- **Revolving fund** - a fund set up for specified purposes with the concept that repayments to the fund may be used again for the same purposes. Revolving funds are generally used to support local development and social policies.
- **Crowdfunding** - an alternative source of income for Local Governments. It is guided by the principle that citizens can voluntarily invest a certain financial amount into a proposed project.



More about possible financing sources in the Urban LEDS factsheet Innovative Financing towards a low carbon community: Revolving funds, Intracting and Community Funding. What do they mean?



EcoEnLight, an example of co-financing

A good example is EcoEnLight, the refurbishment of the traffic light system of Almada, via the development of an intelligent lighting system and the implementation of 100% LED traffic lights.

AGENEAL had a significant role in this process as it contributed to a successful implementation of the intervention through the development of the baseline study, in collaboration with Almada City Council as well as being in charge of the follow-up and providing technical support during the implementation phase.



This process capitalized from a streamlined approach, with every step being supported by several co-funding sources:

1. **The Base Study** and Pilot phase (testing in the feasibility of the new system) was co-financed at 50% by ICT-PSP Information and Communication Technology, Policy Support Programme through the BEST Energy Project;
2. **The Implementation phase** (with the purchase of materials/equipment to cover 5% of the Lighting system) was co-financed by Structural Funds (50%) and also Almada "Less Carbon" Fund (50%) which is a revolving fund;
3. Finally, **the Last Stage** of the process consisting of a full-scale refurbishment was implemented with the support of an Energy Performance Contract established between the Municipality and an Energy Services Company (ESCO Model). This involved an investment of around 12,5 M€ from the ESCO, which resulted in annual savings for the Municipality of around 314 000,00 €, a reduction of ~3 000 tonnes of CO₂ and energy savings of around 68%.

Lessons Learned: Implementation of successful energy efficiency measures "Setting up a local energy agency: a first step for energy transition?"

Energy agencies can play a key role supporting Local Governments in developing initiatives to tackle climate change at the local level, and in exploring innovative financing mechanisms to fund/streamline their action towards energy transition: but there is not a "one size fits all" solution to establish them.

Each Local Governments should decide on the most suitable model for its energy agency (public or public/private organization with the involvement of relevant stakeholder and the community, financial model, etc.). Nonetheless, some key steps and recommendations can be broadly applied to an energy agency, a similar entity or an agency with a broader sustainability implementation mandate.

These include:

- 1. Political support** is a compulsory factor in order to overcome structural barriers: legal, financial and organizational.
- 2. The Local Government** is a key enabler, and must champion the agency. Whilst the energy agency is supported by the Local Government, it must remain an independent entity.
- 3. The Governance structure** is key to the establishment and management of the agency:
 - To secure political buy-in (e.g. the Mayor chairs the Agency's Board).
 - To secure vertical integration across governance levels (e.g. board seats allocated to national energy agencies, and municipal executives).
 - This engagement could help central governments to better promote the creation of local energy agencies, and facilitating sustainable financing mechanisms.
 - To secure local stakeholders support: remaining seats are reserved for stakeholders, via election among the partners.
 - Although the municipality retains a key level of control through the board, it is not a council organization, and it must maintain an impartial role.
- 4. Stakeholder members** represent a wide range of activity sectors, that are part of the city's energy mix in different ways (public transport operators, energy distributors, universities, building developer, water company, etc.).
- 5. Partners engagement** is crucial and values the agency as a facilitator and broker for complex energy issues. Partners engagement can also provide the necessary stability to the mission, and operation of the agencies in case of variations in if/ political support for the agency.
- 6. Ongoing membership should be free**, to guarantee stability and inclusiveness.
- 7. The agency should be set-up to remain self-sustaining.** This can be ensured by:
 - Contracts with the municipality to deliver on the city's energy action plan.
 - Contracts to deliver projects in partnership with members and other parties.
 - Donors/public projects.
- 8. Staff team** should be dynamic, flexible and able to innovate and demonstrate leading-edge knowledge and expertise able to add value to the city, members' operations, and partnership projects.
- 9. Partnerships and community involvement** (citizens, schools, etc.) are fundamental to the agency's success.
- 10. Integration of sectors and policies** (energy, environment, economy, social issues) should drive the agency's work. **Clears estimations of the impacts** of the actions undertaken and monitoring of the results are key to build confidence in the agency, and secure its long-term sustainability.
- 11. To set up an innovative financing mechanism** aimed at funding Energy Efficiency and Renewable Energy projects requires the **identification of the core team** that includes representatives from public/private entities responsible for management and operation.
- 12. It is also mandatory to engage political and civil society/citizens representatives.** **Diversity is the key** to set up the most appealing and suitable model for a financing mechanism addressed to a particular/ specific context.
- 13. The showcase of success stories** is crucial to increase the interest to explore less widespread mechanisms and broaden the array of solutions available in this field.



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