ITALY[1] - Integrated Energy Management Services

Context

Consip is the Italian central purchasing body, 100% owned by the Ministry of Economy and Finance (MEF). Energy is one of the product/service categories that Consip provides to public administrations. Through research, Consip's energy and research and development units realised that there was room for improving the procurement of heating services as it absorbs 41% of the national energy expenditure (about EUR 3.4 billion annually) and accounts for approximately 5% of the Italian energy market. The expected target was to achieve economical savings of 5-10% and an equivalent energy savings.

Objectives

In order to combine cost savings and incentives for innovation in public procurement through performance standards, Consip launched a framework contract on "Integrated Energy Management Services" for heating services including improved energy efficiency, consumption reduction and CO_2 emissions avoidance. Pre-procurement market consultation was carried out using online questionnaires addressed to businesses and the main trade associations in Italy. This initiative shows how research, development and innovation can be stimulated through a performance-based contract for a large number of administrations.

Implementation

Consip undertook a market analysis based on a mix of historical data and information deriving from the answers provided by the suppliers to questionnaires published on Consip's website and to the public announcements of the company's schedule and scope of forthcoming procurement initiatives.

The pre-procurement market consultation was one of the most important parts of the procurement process and was carried out using online questionnaires for suppliers. Several meetings took place with the main trade associations and with all the suppliers that had won in previous relevant tenders to discuss the critical aspects that emerged during the execution of the previous relevant contracts. Thus, suppliers were involved before the decision of tendering strategy and were offered the opportunity to present their views, so that the best strategy could be chosen by Consip.

Consip's tender was a framework contract open to all public administrations so it was not possible to define exactly the buildings to be heated and their technical/physical features. Therefore, the tendering process was developed starting from a business case on a specific public building extrapolated to the entire value of the tender and number of forecasted buildings.

Impact and monitoring

The tendering process was an open procedure, split into 12 geographical lots, awarded to 5 different suppliers, on the basis of the most economically advantageous tender (MEAT), whereby 70% was allocated to price and 30% to quality.

The main feature of this performance contract was a settled temperature (i.e. 20°C) to be preserved inside buildings (public offices, schools, prisons, universities, etc.) for five years.

1. Case study submitted by Consip SpA, the Italian central purchasing body.

The main services included in the contract were:

- fuel supply
- operation and maintenance (O&M) of the heating facilities
- remote control
- outsourced legal responsibilities
- outsourced technical and administrative issues
- regulatory and technological upgrading.

Improvement of energy efficiency consumption and consequently pollution reduction: The supplier was required to ensure a minimum level of reduction for primary energy consumption of the whole "building/heating plant" system, measured in tonnes of oil equivalent (TOE). The supplier was also required to provide evidence of the results obtained, certified by the AEEG (Italian Regulatory Authority for Electricity and Gas) which operates and maintains heating facilities, including by remote control.

Challenges and risks

In order to reduce energy consumption, at a national level, Consip adopted a strategy based on energy performance contracts. The basic idea is that the supplier of the energy service should be motivated and encouraged to optimise energy consumption and resource management to improve his/her profitability.

Green considerations were introduced (benchmarked against international best practice) in the following elements of the tender:

- Technical specifications:
  - settled temperature (e.g. 20°C) to be preserved inside buildings (public offices, schools, prisons, universities, etc.) during the average Italian heating season (i.e. 8 hours for 4 months)
  - installation of electronic meters and constant monitoring of the buildings' indoor temperatures
  - online monitoring activities (using eMeters) and online assistance
  - assessment of the optimal level of consumption for heating and energy services
  - energy audit performed for every building.

  The supplier is compensated only at the end of the service delivery, having achieved the predetermined levels of performance.

- Award criteria:

- technical report (for each building receiving the energy services) including a specific study on the interaction between the building users and its energy system

- publication of the environmental assessment and/or social budget and/or sustainability report

- infrared photography report for each building receiving the energy services.

The award criteria were aimed at encouraging suppliers to reduce primary energy consumption and the associated CO_2 emissions of the entire building/heating plant system by measures such as substitution of hot water heating, insulation, renewable thermal sources, etc. All the suppliers involved were able to comply with the technical criteria requested.

A 27% cost savings for public administrations was achieved involving approximately 6 000 buildings. Contracts executed had a total (estimated) financial value of EUR 800 million. There was enhanced competition on technical features included in the tender.

Key lessons learnt

The principle environmental impacts are related to CO_2 emissions caused by energy consumption. In order to reduce these impacts, the contract included a performance clause requiring a minimum amount of energy to be saved (375 TOE). Actual energy saved (13 800 TOE) was higher, resulting in the avoidance of 40 800 tonnes of CO_2 emissions. The procurement process ensured two additional results:

- In the short term, suppliers are encouraged to reduce the energy consumption of buildings.

- In the long term, at the end of the contract, the public administration owns the equipment installed by the suppliers (for example, the boiler).

If all Italian public authorities used Consip's framework contracts, the cumulative effect would result in approximately EUR 100 million of savings.

The success of this framework contract has helped Italian public authorities to lead by example in energy savings *vis-à-vis* citizens and the private sector, complying with their procurement obligations and with Directive 2006/32/EC on energy end-use efficiency and energy services.

In the new edition of this framework contract, energy savings will be monitored both by Consip and the public administrations that occupy the buildings, with potentially applicable penalties. The main changes expected are:

- the remuneration of the suppliers, which will take into account both the physical and architectural features of the buildings (for example, type of windows, insulation)

- the variable duration of contracts, in order to increase the pay-back period for the supplier (from five to seven years)

- an increase in the minimum level of reductions requested (in TOE)

- the multiple services offered by the supplier (for example, energy certification).