

Grading Methodology – CARE BEE ESCO Grading

Overview

CARE has been mandated by The Bureau of Energy Efficiency (BEE) for grading of Energy Service Companies (ESCO) which evaluates the ability of ESCOs to conduct energy audits and implement energy saving projects. ESCO is defined as an organization engaged in conducting energy audits and enters into performance-based contracts with a host firm to implement measures, which reduces energy consumption and costs in a technically and financially viable manner. Host is defined as an entity for which ESCO project is implemented.

ESCO projects are typically executed under Energy Saving Performance Contracts (ESPC) entered into between the host and ESCOs. The payments to the ESCOs under the ESCO projects are based on meeting specified performance guarantees or achieving certain predetermined savings related to implementation of an energy efficiency project.

CARE grades ESCOs on three broad parameters – Track Record and Market Position, Organizational Risk and Financial Risk. The ESCO grading is carried out on a five-point scale and communicated to the BEE along with a detailed grading report. CARE also delivers a grading report and a letter to the respective entities which approaches CARE for grading.

The ESCO grading process involves seeking relevant information and documents from the entities being graded, besides engaging with their respective key personnel in technical, marketing and financial functions. Moreover, feedback is also sought from the bankers and key customers. Based on the details provided and interactions with managements, the ESCO grading is assigned which is valid for a period of two years from date of grading.

Grading scale and definitions

The ESCO grading is assigned based on scoring model comprising 100 marks bifurcated into three categories viz. Track Record and Market Position, Organizational Risk and Financial Risk. The final grading is assigned on the basis of the overall score as per the cut-offs outlined below:

CARE BEE Grade	Score
CARE BEE Grade 1	85 and above
CARE BEE Grade 2	70 and above but less than 85
CARE BEE Grade 3	55 and above but less than 70
CARE BEE Grade 4	40 and above but less than 55
CARE BEE Grade 5	Below 40

The ESCO grading defines the ability of entities to conduct energy audits and implement energy-saving projects. The overall grading scale and definitions are as follows:-

Grading	Definition
CARE BEE Grade 1	Very high ability to conduct energy audits and implement energy saving projects
CARE BEE Grade 2	High ability to conduct energy audits and implement energy saving projects
CARE BEE Grade 3	Good ability to conduct energy audits and implement energy saving projects
CARE BEE Grade 4	Average ability to conduct energy audits and implement energy saving projects
CARE BEE Grade 5	Below average ability to conduct energy audits and implement energy saving projects

Grading Methodology

ESCO grading methodology is developed after interactive deliberations with BEE. The methodology is periodically reviewed and approved by BEE. ESCO projects are typically executed under ESPC model based on contracts which are entered between the host and ESCOs. All energy saving projects are not considered as ESCO projects and projects which are implemented under ESPC model only are considered ESCO project for the purpose of ESCO grading. Similarly, suppliers or traders of energy saving equipment or renewable energy companies are not considered as ESCO.

Broadly, ESCO project are classified in four categories:-

1. Shared Savings Model

Under shared savings model, ESPC is entered between ESCO and host for whom ESCO implements energy saving project. Generally, no investment is required to be made by the host and the entire investment is made by ESCO. The savings achieved from the project are shared between ESCO and host as per the ESPC agreement entered into between host and ESCO.

2. Guaranteed Savings Model

Under guaranteed savings model also, ESPC is entered between ESCO and host for whom ESCO implements energy saving project. Generally, investment is required to be made by the host and no investment is made by ESCO. The latter guarantees the savings to be achieved from the implementation of the project. If the actual savings are lower than guaranteed savings then ESCO is required to pay the difference. However, if actual savings are higher, then, ESCO receives the bonus payments.

3. Deemed Energy Savings Model

Under deemed energy savings model, a fixed price ESPC is entered between ESCO and host and the entire investment is made by ESCO who implements the energy saving project. This model is more prevalent in municipalities wherein energy consuming equipments such as street lights, water pumps etc. are retrofitted after identifying deemed energy saving potential based on a sample energy audit.

4. Outsourced Energy Management Model

Outsourced energy management model is more prevalent outside India and it is relatively new in India. Under this model, ESPC is entered between ESCO and host facility under which ESCO takes over operation and maintenance of the energy-using equipment in host facility. ESCO sells the output (e.g., steam, heating/cooling, lighting) to the host facility at an agreed price (generally fixed over a long period of time). ESCO invests in all equipment upgrades, repairs, etc. to improve energy efficiency. Ownership typically remains with the host facility (however, in some cases, ESCO may also assume ownership)

The measurement and verification (M&V) protocols for the energy savings are worked upon at the time of agreement under all ESPC models. M&V can be performed by ESCO or Host or jointly by Host and ESCO. At times, the services of independent M&V experts are also availed.

The detailed ESCO grading methodology is outlined below:-

Track record and market position

1. Nature of projects

- Years in the ESCO business
- Number of detailed energy audits in last 5 years

2. Concentration risk

- Number of clients for ESCOs projects in last 5 years
- Number of sectors covered for ESCOs projects(As per Schedule of the EC Act)

3. Market Position

- Number of ESCOs projects completed
- Current Order book position for ESCOs business
- Customer feedback for ESCOs projects

4. Quality of projects

- Time and cost overruns
- First time any innovative ESCOs projects implemented
- Ratio of number of projects where actual energy savings is more than or equal to guaranteed energy savings

Organizational Risk

1. Manpower

- Number of employees in ESCO business
- Qualification of employees related to energy related courses
- Average years of experience of employees in ESCOs projects
- Number of certified energy auditors
- % of employees in ESCO business with respect to total number of employees
- Management evaluation

2. Organization structure, processes and systems

- Quality of organization structure, reporting system, and internal controls
- Constitution
- Maximum number of projects handled at a time
- Quality of service, systems and processes, reflected in third party certifications.

- Technology tie-ups, patents, R&D facilities

Financial Risk

1. Existing Financial Profile

- Revenues from the ESCO business over the last three years
- Annual turnover from ESCO business/ Total turnover
- Average PAT margins for ESCOs business in last 3 years
- Gearing
- Working Capital Turnover Ratio
- Net Cash Accruals to Total Debt
- Receivable management
- Revenues growth rate in last 3 years for ESCO business

2. Financial flexibility

- Access to cash flows from other businesses
- Banker's feedback

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CIN - L67190MH1993PLC071691

Disclaimer

CARE's ESCO grading is an opinion on organizational ability of the entities to handle ESCO assignments; evaluated based on assessment criteria of Bureau of Energy Efficiency. CARE takes utmost care to ensure accuracy and objectivity while assigning the grading based on information and documents provided by ESCO and from sources believed by it to be accurate and reliable. However, neither the accuracy nor completeness of information used for assigning the grading is guaranteed. CARE is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of grading and particularly states that CARE has no financial liability whatsoever to the user of this grading. The grading is not a recommendation for award of projects to entities for which CARE has assigned grading. The entities graded by CARE have paid a grading fee.