

## **EPEE Contribution to the public consultation on Financial Support for Energy Efficiency in Buildings**

**May 2012**

### **1. Addressing Market Failures**

1a. Are the barriers identified in this document the most important ones? If not, which barriers are missing and why are they important? The barriers identified in the document are (1) energy efficiency is not a major concern for consumers or firms because energy costs are relatively low; (2) energy market prices do not reflect all environmental and social costs; (3) split incentives or principal-agent problems in the building sector, where the decision maker may be (partially) detached from the price signals; (4) Information failure; (5) Low awareness of and lack of information about the ESCO concept; (6) the relatively high level of initial investment costs; (7) The relatively small size of energy-efficient projects compared to other investments increases the transaction costs; (8) Dependency on grants and a lack of a systemic approach to bundling energy efficiency investments.

Energy efficiency of buildings indeed requires tremendous upfront investments. Additionally, lack of profitability for the Industry forms a barrier, as well as the lack of information and awareness, particularly regarding the use of ESCOs whereby energy service companies deliver guaranteed energy efficiency improvement measures in a user's facility. These companies help to finance or all of the upfront costs, which are paid back with the money saved on energy bills.

1b. Which market failures would be most urgent to address? At what level (i.e. EU, national/regional/local) would these failures be best addressed?

In addressing the other market failures identified, it will be necessary to take a structured approach that will deal progressively with the different barriers. EPEE suggests that adopting the well-known *AIDA* approach of *Awareness – Interest – Desire – Action* would be a good start: this approach, targeted at a specific audience, raises awareness of an opportunity, thereby stimulating the interest of this target audience in the issues at hand. In turn, this translates into a desire to do something about the issue, finally leading to action being taken.

It is our view that addressing the barriers to the use of Performance Contracting in Europe would be a significant step in increasing energy efficiency programmes in Europe.

EPEE believes that action needs to be taken at all levels. Whilst many of the barriers can be addressed at the local and national levels, Europe has a role to play in highlighting these barriers and promoting possible solutions and best practice. Europe should also take the lead in the creation of a regulatory framework to promote greater investment in energy efficiency. We are hopeful that the forthcoming Energy Efficiency Directive and the full implementation of the Energy Performance of Buildings Directive will play an important role in this regard. However, EPEE urges the Commission to address other issues such as accounting rules, public procurement rules, and state aid to promote greater use of Performance Contracting and investment in energy efficiency in general.

Regarding public procurement, EPEE suggests a modification of the applicable regulations so as to allow for single source awards. Doing so would avoid significant stranded development costs in the industry and lead to open book pricing mandates to ensure effective procurement.

1c. How could these failures be best addressed? For example; how could behavioural change needed for quicker uptake of energy efficiency measures by society be triggered at the national level? How could the development of an energy services market for households be further stimulated? What could be done to increase awareness raising and promotion of energy efficiency in buildings? How could the business community (e.g. building sector, ESCOs, local banks, etc.) be better supported in delivering energy efficiency in buildings? How could the split incentive problem be best tackled?

It is important to signal to investors that there is high-level, and especially long-term support for EE policy, in order to gain their trust.

EPEE urges policy makers to emphasize the existence and working mechanisms of systems such as ESCOs, and an increase of exchange of best practices.

Furthermore, the primary focus should now be on seizing investment opportunities when they present themselves – typically twice in the life cycle: when the building is first occupied/purchased and the new tenant may adapt it to its needs and in the period after it is vacated before the next tenant/owner moves in.

## 2. Improving Access to Financing

2a. Are the current EU-level financial tools for energy efficiency in buildings effective? How could the uptake of EU-level funding for energy efficiency (including cohesion policy funding) be improved? As a complement to tailor-made national or regional financial instruments (e.g. set up with a contribution from cohesion policy funds), what could be the future role of centrally-managed financial instruments at EU level in this context?

Considerable part of the EU-level funding is delivered through the Cohesion Funds and the Intelligent Energy – Europe Programme II, thereby mostly dedicating funds to the regional level. EPEE welcomes energy solutions that are tailored to local situations: climatic, economic and political differences between Member States (and even within Member States) should be part and parcel of any policy and R&D programme.

However, EPEE wishes to point to the risk of a sole focus on funding through Cohesion Funds, an approach which keeps energy efficiency projects at the regional rather than the national or even supranational level and might hamper the ability to achieve the necessary scale to attract investment. EPEE suggests that the uptake of EU-level funding for energy efficiency could be improved by partly rechanneling the funds in that more funding would reach the member states outside of the Cohesion funds. Consequently, EPEE supports recent additional initiatives, such as the European Energy Efficiency Fund (EEE F).

2b. How could more private financing (both from institutional investors as well as building owners for energy efficiency projects) be mobilised? What would be the role of public funding (both at EU and national level) in this context? Is access to (project development) technical assistance an issue and how could it be provided most efficiently at the national, regional and local level? How could both national and EU financing schemes be improved to best cover all segments of the market (residential, commercial, public buildings, etc.)?

Rather than focusing only on technical assistance, EPEE wishes to emphasize the need for a mechanism whereby several projects of a relatively small scale can be tied together, in order to obtain access to private funding mechanisms, which are often destined for energy efficiency projects of a considerable scale.

Industry needs a predictable regulatory framework. Uncertainty regarding the long term application of initiatives is to be avoided, given the risk of making potential private investors hesitant.

Apart from the budget reserved for public funding, the importance of its efficient use in order to provide effective leverage for private funding should be stressed.

Consequently, EPEE welcomes EEF initiative, a public-private partnership open to investments from institutional investors, professional investors and other well informed investors. EPEE also welcomes the shareholder structure contained in the EEF, which aims at providing commercial returns to its investors, and urges policy makers to make optimal use of such mechanisms.

2c. Is there a need for guarantee systems related to building efficiency investments? If so, what guarantee systems for efficiency investments would be necessary and how should they be designed? Is there a need for other enabling mechanisms (e.g. risk-sharing, investment vehicles)?

In order to overcome some of the previously identified issues concerning the use of Performance Contracting and financial institutions, explicit and implicit financial guarantee structures should be implemented. This would allow financial institutions to view EPC projects as secured lending. In addition, the setting up of investment and/or special purpose entities should be facilitated in a cost-effective and tax-efficient manner.

EPEE believes a key focus of European and national policy should be an increase in the use of the model in Europe. With regards to other enabling mechanisms, we and other ESCOs are well versed in the development of complex models to support our customers.

2e. Are there examples of good practice at national or regional level (with data on costs and benefits) that could be applied more widely?

- The KfW scheme;
- The Irish Better Energy Workplaces Fund;
- The Green Deal;
- The Kredex Fund; and
- The French Energy Savings Certificates Scheme.

### 3. Strengthening the regulatory framework

3a. Is there any need for further EU-level regulation to stimulate energy efficiency investments in buildings beyond the Commission proposal for a new Energy Efficiency Directive? If so, what should these measures entail?

Given that according to the latest estimated the EU is not sufficiently on track to reach its target of a 20% reduction of the EU's energy consumption, set in its Europe 2020 Strategy. A better breakdown of how the EU will reach this target (financial tools, legislative tools, market surveillance)

Instead of setting new milestones, EPEE urges for better market surveillance on and implementation of existing energy and environmental legislations as to ensure that the existing milestones and targets are actually met.

Before any additional EU-level regulation is issued, it is vital to the industry that full implementation of the existing regulation, mainly the EPBD recast, is ensured. Solid enforcement mechanisms are necessary. EPEE stresses this need for implementation and enforcement particularly in light of the Commission Delegated Regulation, adopted on 16 January 2012, establishing a comparative methodology framework for calculating cost-optimal levels of minimum energy performance requirements for buildings and building elements (to which the Council, as declared recently, did not object).

EPEE calls for technology-neutral incentives. EU and national level (EU funds, financial incentives) should contribute to increasing the share of energy-efficient technologies and to ensure a diversified mix of applications.

Developments in technologies should be fostered. Industry needs a predictable regulatory framework.

**3b. What could be specific measures to be taken at national level to implement and complement most effectively the EU-level regulatory framework for energy efficiency?**

EPEE stresses the need for full national implementation of the existing EU legislative framework, before any new initiatives are taken at national level. In this regard, EPEE urges for better market surveillance on and implementation of existing energy and environmental legislations. Tangible enforcement mechanisms are welcomed in order to ensure full implementation, for example in relation to building energy codes. It is vital for the Industry that the Member States fully implement their specific obligations regarding financial measures, contained in the EPBD, to provide for appropriate financing and other instruments to catalyse the improved energy performance of buildings and the transition to zero-energy buildings.

**3c. What are the specific needs for policy guidance and awareness raising among different stakeholder groups?**

Awareness-raising at EU-level and the national and level (of both public authorities as professionals and consumers) on the available technologies and the financial tools should be further encouraged in order to help truly **delivering** the targets that have been set by the EU.

Long term, the introduction of programs to accelerate the transition to a smart grid should be considered. Measures should include:

- Instrumentation - digital real time metering of buildings;
- Funding/incentives to implement automated demand response technology (possibly as part of retrofit programs) (for instance the Californian program at \$150 per KW enabled for Automated Demand Response); and
- Create demand side energy markets where aggregators can deliver peak load reduction into the energy markets at full market pricing and potentially deliver efficiency under programs that monetize utility energy efficiency resource standard requirements.