

EuroACE – European Alliance of Companies for Energy Efficiency in Buildings

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EuroACE response to the Public Consultation on Financial Support for Energy Efficiency in Buildings

EUROPEAN COMMISSION – DG ENERGY

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General Remarks

EuroACE agrees with the Commission that the question of how to finance energy efficiency of buildings is a crucial one and that it must be addressed now. This is evident to all actors that are actively engaged in trying to ensure that the huge potential for energy savings that is locked up in the building stock is released. It is the view of EuroACE that this is imperative, as unless we reduce the energy demand of the EU building stock, the EU will never reach the goal of achieving a low-carbon economy by 2050 and will fail to meet the EU goal of a 20% reduction in primary energy use by 2020 through increased energy efficiency.

Financing is a key aspect to the uptake of more energy efficiency in buildings, especially in existing buildings, but it should not be considered that all financing should come from the public purse. Indeed, there are a number of proven models that use private finance to upgrade buildings in both the public and private sectors. **There is a very strong business case for investment in energy efficiency of buildings** as there are savings to be made from day one after the completion of energy efficiency works and the savings continue for as long as the building is in use. This is the case for instance with the ESCO and Energy Performance Contracting Model. However this business case has not yet been communicated enough towards the financial community. To make it attractive for investors to invest in energy efficiency solutions with a longer pay back time, it is important to have a long term framework to reduce the perceived uncertainty.

The example of the KfW scheme in Germany is a case in point which demonstrates that investing public money in energy efficient renovation of buildings has produced a return of 5 to 1 within just one year when assessed against public investment rules. Building the business case on the basis that investment in energy efficiency of buildings is clearly a revenue-generating activity will encourage private investors to invest.

As a justification for public investment, there are many studies¹ that show that investment in the energy efficient renovation of buildings also leads to high levels of job creation. In fact it is observed that the average number of jobs created per €1m invested is between 16-19 jobs², which is much

¹ To name just a few: BPfE: Europe's Buildings Under the Microscope, 2011; KfW: Julich Research Centre: Impact on Public Budgets of KfW Promotional Programmes in the Field of "Energy-Efficient Building and Rehabilitation", 2011; ECF: Employment Impacts of a Large-Scale Deep Building Energy Retrofit Programme in Poland, 2012

² EEf: Study on job creation potential of energy efficiency in the EU, 2012

higher than for other sectors. In addition, the vast majority of these jobs are local jobs that cannot be outsourced.

(1) Addressing market failures

- (a) Are the barriers identified in this document the most important ones? If not, which barriers are missing and why are they important?

The document identifies most of the key factors causing market failure, except the absence of instruments to provide a long term perspective to renovation market actors.

Also, the discussion of those factors is incomplete and gives the impression that they exist across the entire EU in equal measure. This is not the case, and further study of which barriers are most relevant in which countries or regions would assist in devising solutions. Ideally for each market, there should be a clear picture of prioritised and categorised barriers showing also their correlations.

Another missing barrier is the lack of incentive to look at how to improve both the rate and depth of renovations taking place. Both are needed, in all EU countries.

More emphasis should be placed on better implementation and enforcement of regulations at the national level. A large gap still exists between the commitment which Member States took on the EPBD and the actual transposition of this directive into national legislation. The enforcement of this regulatory framework has frequently been the main driver to building confidence in the energy efficiency market.

In addition to focussing on ESCOs, more emphasis is also required on the identification of current trends addressing the market failures, which include smart metering, smart grids, true cost pricing (transparency of social and environmental parts of the price). Identifying these trends is necessary to translate them into measures which will accelerate the transition to an energy efficient future.

- (b) Which market failures would be most urgent to address?

In addressing the market failures, it will be necessary to take a structured approach that will deal progressively with the barriers identified. **The barriers need to be prioritized according to where the biggest potential lies and how easy they are to solve.** A large number of barriers are “perceived” barriers which can be solved by improved legislation.

The lack of proper and timely implementation and enforcement of existing EU directives dealing with energy efficiency in buildings, namely the EPBD, needs to be urgently addressed.

Another market barrier to be addressed pertains to the use of *Energy Performance Contracting* in Europe, whose market is still largely underdeveloped, although they are mandated by the EPBD. It is necessary to undertake the **dissemination of information on the use of EPC by public authorities**, in which the private partner *guarantees* the energy savings that will be made, and thus guarantees the loan that is needed to pay for works.

Another issue to address is **investor confidence** in the energy efficiency of buildings together with **training the workforce** in the building chain. In the first case, building investor confidence is a first step to releasing available funding and in the second case, ensuring that workers are properly designing and installing energy efficient elements and equipment is essential in order to ensure that the promising energy efficiency results are actually delivered. If the results are not delivered, credibility in claims of increased performance quickly drops.

With regard to the financial barrier related to the perceived high initial investment cost for energy efficiency in buildings, the issue of priority setting of internal budgets needs to be addressed. For structural energy efficiency investments, the current organisational KPIs and responsibilities are not set up to support the transition, caused by the **undesired shift from current operational energy budgets into capital budgets**. This could be addressed by fiscal incentives and waivers.

At what level (i.e. EU, national/regional/local) would these failures be best addressed?

The EU is best placed to provide a long term perspective for the energy efficiency market to develop, namely by encouraging all actors to better assess and understand the possible savings, the barriers for such markets, and existing technologies and services

Implementation and enforcement of laws and regulations should be assured at the national or regional level.

Work on building investor confidence must be addressed at all levels.

(c) How could these failures be best addressed?

Through concerted, coherent and integrated policy development and implementation in which a stable, long-term climate for investment in energy efficiency of buildings is created.

Despite the global economic and financial crisis, there is a fund of money that is already committed by the Member States in the context of the **Multi-annual Financial Framework (MFF) for investment in energy efficiency of buildings**. The European Commission has proposed that a minimum of €17bn be dedicated to energy efficiency and renewable energy sources in the period 2014-2020. It is important that at least 50% of this amount be earmarked for energy efficiency in buildings. Also missing is an investment grade policy at the EU and at the national level which would see a rapid flow of private money to energy efficiency.

For example; how could behavioural change needed for quicker uptake of energy efficiency measures by society be triggered at the national level?

Inducing behavioural change in democratic societies is notoriously difficult and best achieved by rewarding individuals for changed behaviour that leads to the achievement of a desired outcome. In other words, the individuals that must change their behaviour must see a personal advantage in the change for themselves. The first starting point must therefore be to ensure that all information on energy efficiency is framed in a positive light and that the **benefits of energy efficiency are being made visible**, including for individuals.

Thereafter, fiscal incentives at national level have also proven to be an efficient policy tool to encourage certain behaviour.

How could the development of an energy services market for households be further stimulated?

In general, the impact of occupant behaviour in a household has a proportionally higher impact on energy savings than in a non-residential building. As an energy service company guarantees the savings that will be achieved, it becomes more risky for energy service providers to enter the residential market. Therefore aggregating a number of households into a larger single project is one way to help the market to develop.

The development of the energy services market for the commercial sector is another sector which also needs to be addressed. Although this represents a significantly smaller section of buildings than the residential sector, it is, relatively speaking, easier to develop the energy services market in the commercial sector; the huge impact of the commercial sector on energy consumption cannot be forgotten.

What could be done to increase awareness raising and promotion of energy efficiency in buildings?

- Public awareness campaigns highlighting the savings potential
- Educational programmes targeted at the young
- Enforcement of certification schemes and existing legislation in general
- Increased visibility of certificates in public buildings
- Creating a societal demand around energy efficiency
- Better displaying and publicising the extensive ancillary benefits that energy efficiency brings
- Greater promotion of successful projects
- Timely and relevant feedback to the end-user, transparency in usage and relevant measures.

How could the business community (e.g. building sector, ESCOs, local banks, etc.) be better supported in delivering energy efficiency in buildings?

Providing confidence in the market goes together with **giving business actors trust that Energy Efficiency will stay high on the agenda for decades**. The development of tenders based on function instead of project will also increase the focus on the running cost and not only on upfront investment (public private partnership).

Increased **technical assistance programmes** that are specifically designed to address each part of the supply chain need to be maintained and increased. Such programmes can be used to educate, assist and guide all those that have a responsibility to deliver energy efficiency in buildings.

Improving and reinforcing the ways that public procurement rules and procedures can favour higher levels of energy efficiency in buildings that are procured by contracting authorities would also help.

In order to promote the development of an ESCO market in Europe, the main barriers need to be addressed. These include a lack of policies and support mechanisms, capacity

constraints, a lack of common definitions and harmonized processes, prohibitive public procurement and budget rules, and the market failures mentioned previously. The main issue for the sector is not one of finance but a lack of knowledge of the types of services an ESCO can offer. The barriers we mention are the key elements in stopping projects moving forward - removing these will help to increase awareness as more projects are successfully concluded.

How could the split incentive problem be best tackled?

The split incentive problem is an issue when the positive business case exceeds the lease/rental period of a tenant. The business case for the tenant could be supported by national fiscal measures, as is the case in the Netherlands with the EIA (Energie Investerings aftrek). With regard to building owners, the incentive could be strengthened by enforcing energy labelling.

The UK Green Deal has also offered a solution to tackling the split incentive problem by attaching a loan to the property rather than to the person.

Nevertheless, it must be recognised that the split incentive problem as described in the consultation document affects no more than about 50% of the market. This means that we should concentrate first and foremost on the 50% not affected and use this portion to get deep renovation of our buildings underway. As high numbers of renovated buildings become common, they will act as a great pull for those that suffer from the split incentive.

(2) Improving access to financing

(a) Are the current EU-level financial tools for energy efficiency in buildings effective?

There are problems with some of the current EU-level financial tools that restrict their effectiveness. These relate to the **complexity** of getting funding to flow to actual building projects and to the **lengthy and burdensome procedures** that must be fulfilled. In the case of the Structural Funds, there are additional problems related to the fact that rules allowing for the Structural Funds to be used for energy efficiency in buildings are recent and the main actors involved in managing those Funds are unfamiliar with the energy efficiency market and how it works. The technical assistance provided by ELENA and the financial products available through the EEEF are successful examples of an efficient use of public funds, both having the potential to leverage significant sums of private capital.

In addition, the financial assessment mechanisms currently available don't match the number of potential transactions and loans. The transactional costs are often too big for banks and timelines are too long for potential users. What is required is an EU supported financing interface enabling flexible and quick small ticket processes with a short turnaround to support smaller deals.

How could the uptake of EU-level funding for energy efficiency (including cohesion policy funding) be improved?

There are several possible ways that the uptake would be improved:

- Build capacity in administration, at all levels

- Ensure stronger and more far-reaching technical assistance programmes

Use the funds as seed money to encourage higher flows of private funding
Use EU funds to generate investor confidence in the energy efficiency market
Use EU funds to guarantee loan and to lower interest rates on energy efficiency loans provided by retail banks, as has been demonstrated by the KfW scheme.

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?

See above

- (b) How could more private financing (both from institutional investors as well as building owners) for energy efficiency projects be mobilised?

The best way to mobilise private finance is to create a long-term stable investment environment that will build investor confidence. There is a need for long term programming of measures and policies in the shape of roadmaps.

Before this comes into place, widespread publicity of successful best practice examples of privately financed projects should be undertaken. Finally, using public funding strategically to lower interest rates, as has been put in place by the KfW scheme, or to reward proven high performance buildings would also be good ways to mobilise private finance.

What would be the role of public funding (both at EU and national level) in this context?

Public funding would serve as a guarantee to enable private investments and loans.

Is access to (project development) technical assistance an issue and how could it be provided most efficiently at the national, regional and local level?

In the sense that having technical assistance programme has proven to be of real importance in the current funding period of the Structural Funds, the issue is to **maintain and increase technical assistance in the future**. Early results with the ELENA technical assistance programme indicate that for every €1 spent in providing technical assistance, €60 has been invested in real projects. This is a significant leverage that underlines the enormous value of technical assistance programmes.

How could both national and EU financing schemes be improved to best cover all segments of the market (residential, commercial, public buildings, etc.)?

EuroACE does not believe there is a one-size fits all solution for the different sectors. Each segment should be approached with their own specificities in mind and programs and policy designed accordingly. However, there is scope for best practice and knowledge to be shared across the sectors.

- (c) 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?

In order to get the market for energy efficiency going, it would be helpful to have guarantee schemes in place. The Green Deal is a good example of a guarantee system where there is a high certainty that the investment will be paid back. These schemes should underwrite the

investments in non-physical assets such as “negawatts”³, so that in the case of a default, the investors get their initial investments back. This type of scheme would assist in creating the confidence needed at the present time to kick-start the market.

Separately, explicit and implicit financial guarantee structures should be implemented to 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.

Guarantees for physical asset investments would also be useful, as these lead to significant energy savings.

Is there a need for other enabling mechanisms (e.g. risk-sharing, investment vehicles)?

Investment vehicles that small and micro enterprises can call on in order to assist them in giving training to their staff on why careful installation of materials and equipment is needed would be an enabling mechanism that could quickly bear fruits in improved real performance of renovated buildings.

(d) How could the capacity, knowledge and risk perception regarding energy efficiency investments be improved, both at financial institutions as well as with private investors and administrations at all levels?

(e) 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 Home Energy Savings scheme

The Green Deal

The Kredex Fund

Fiscal incentives of Green Investment (in the Netherlands: Box 3 of the tax declaration form)

Pay per lux concept for Architect RAU, Lighting as a service

Lower VAT for certified green products

(3) Strengthening the regulatory framework

(a) 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?

Yes - **given the size of the EU building stock and the current poor performance on most of the buildings, there is a strong need for a Roadmap for the renovation of the EU buildings stock that has a time horizon of 2050.** That Roadmap should set out the steps that the EU needs to take in order to ensure the achievement of our goal of reaching a low-carbon economy by 2050. It should contain interim targets for 2020, 2030 and 2040 and should

³ A “negawatt” is a theoretical unit of power representing an amount of energy (measured in watts) saved through increased energy efficiency.

describe a series of measures and policies that both the EU and Member States could use in order to reach our destination.

The required level of ambition in such a Roadmap would be to reduce the energy demand of the EU building stock by 80% by 2050 as compared to 2005 levels. These Roadmaps are to be designed and implemented at the national level, according to national specificities.

- (b) 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?

The writing and implementation of **national roadmaps** for the energy efficient renovation of the national building stock in a complementary action to that described above for the EU. Both go hand in hand, but the national pillar is fundamental in order for Member States to **take ownership** of the improvement to be done for their buildings towards 2050

- (c) What are the specific needs for policy guidance and awareness raising among different stakeholder groups?

There is as yet too little awareness, at Member State level, of the best practices and guidance which is available to implement the existing EU legislation on buildings and equipment installed in buildings, as described in the consultation paper. Starting with raising awareness of these instruments and then following through with strong implementation would already be a good action to undertake.

Encouraging the uptake of training programmes at national level in order to build up the skills in the building chain would also be worthwhile.

Enforcing product standards would also improve confidence building in Green products and solutions.

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About EuroACE:

EuroACE, the European Alliance of Companies for Energy Efficiency in Buildings, is comprised of Europe's leading companies involved with the manufacture, distribution and installation of energy saving goods and services. EuroACE members have a total turnover of about 140 billion Euros and employ around 172,000 people in Europe alone. The mission of EuroACE is to work together with the European institutions to help Europe move towards a more sustainable pattern of energy use in buildings, thereby contributing to Europe's commitments on climate change, energy security and economic growth.

EuroACE members:

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- United Technologies
- URSA Insulation
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For more information on EuroACE, please visit www.euroace.org

Renovate Europe Campaign:

Launched in 2011, the Renovate Europe Campaign is an initiative of EuroACE, the European Alliance of Companies for Energy Efficiency in Buildings. Its headline objective is to reduce the energy demand of Europe's building stock by 80% by 2050 as compared to 2005 levels.

Learn more about the campaign on www.renovate-europe.eu