

## **IBERDROLA'S RESPONSE TO THE EC PUBLIC CONSULTATION ON FINANCIAL SUPPORT FOR ENERGY EFFICIENCY IN BUILDINGS**

18th May 2012

### **1. Addressing market failures**

#### **Are the barriers identified in this document the most important ones? If not, which barriers are missing and why are they important?**

Yes, the barriers identified in the document are the most important ones

- The barriers highlighted seem to be comprehensive and well thought
- Most of these barriers are not new and have been analysed for many decades

Others barriers are:

- The existence of regulated prices for final consumption, especially those that are below cost
- The misunderstanding of identifying renewable energies as energy efficient solutions. In the case of the Spanish software to calculate the energy efficiency in new buildings, renewable energy production systems take priority over real energy efficiency solutions. Thus, the concept of energy efficiency is in jeopardy. For example, the use of a biomass boiler with a higher consumption of energy provides a higher grade in the energy label than a real energy efficient solution (for example geothermal solution)

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

The most urgent failure to be addressed is the fact that in many cases, energy prices do not reflect all the supply, environmental and social costs. This is a previous and necessary condition for energy efficiency measures to be efficient from the economic point of view. This problem must be solved both at EU and national level, through the establishment of an appropriate regulatory framework (including monitoring of its application), that can include the use of energy taxation.

The second failure to be addressed is the lack of information transmitted to society. If the society is not aware of the need for energy efficiency due to economical, environmental or security of supply reasons, energy efficient solutions will not be applied. This problem must be solved at national level, putting special emphasis at local level. Although European

institutions could contribute with campaigns, technical support, etc, local corporations are the public bodies that could work closest to society.

Others failures are:

- Split incentive problem
- Lack of capital available for energy efficiency refurbishment
- Structure of regulation and enforcement

**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?**

- As we said before, a previous and necessary condition for the development of any kind of energy efficiency measures is that final prices of all energy products reflect total costs.
- The public sector should act as a motor, in promoting the construction of new buildings and the renovation of existing ones according to the best available technologies, as set out in the Proposal of Energy Efficiency Directive.
- A regulatory framework, with technical requirements in order to reach 'nearly zero-energy building' has to be established on time.
- A regulatory framework to improve ESCOs must also be established.
- To roll out those smart meters that could be easily installed in buildings and to promote the efficient use of energy and the participation of the demand in the market.
- Education in the building sector field should be improved. Thus, energy efficiency should be a mandatory subject in technical schools and technical university degrees related to building construction.
- A better Member State regulation to cover the split incentive problem is also needed.
- An increase in MS funding and associated cohesion funding for energy efficiency requirements.
- Performance regulation structures for improving energy efficiency.

These issues are complex and detailed, and are best managed at MS level. In the UK, the Green Deal and ECO are enormously detailed and try to cover different circumstances and eventualities that consumers face.

## **2. Improving access to financing.**

**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**

Although there are some financial tools available, it is quite clear that the total budget allocated for funding is not big enough. Funding should be increased beyond existing levels to have a real impact (albeit, we understand that there is now an acute pressure on budgets).

Cohesion policies should be streamlined and simplified.

It would also be desirable to coordinate the different existing tools, even allocating a specific one to buildings, in order for funding to arrive more easily to small users.

At EU level, the instrument should define the criteria and the amounts available for each MS enabling them to access EU funds directly, and to increase them with other funding sources in bundled packages. For example, in the UK: to link to the Green Investment Bank products.

The application of those general criteria must be done at national, regional and local level.

**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.)?**

Public funding should be sufficient to make private investment profitable.

In the case of non institutional investors, energy efficiency measures implemented in buildings should be an asset in order to obtain the reduction of company taxes (similar to R&D).

The role of public funding should have different targets: the promotion of R&D in order to get economically feasible energy efficient solutions, to facilitate the funding to the private investors, and to increase the awareness and training campaigns addressed to the different actors of the building sector (society, real estate promoters, banks, technicians, etc).

The level of requirement of technical assistance is in line with the availability offered by the market. There is not a clear gap between the demand of technical assistance and the technical assistance available. Technical assistance could be improved at local level through the creation of specific departments in public institutions (local corporations).

Most of the building sector is formed by SMEs that are overwhelmed by the European level implications. Financing schemes have to be clearly identified, be comprehensible and easy to apply for, in order to clearly match the financing schemes to the proper type of building. EU financing schemes should be transferred to the national level in order to be easily promoted into the market. Creative partnerships – eg KfW or Green Investment Bank- should be structured to give access to capital funding on medium and long term paybacks.

ESCO type arrangements should be encouraged by MS, but in a flexible manner rather than being imposed at EU level.

Methodologies for “return on investment” should be developed and recognised by funding institutions, with associated EU or MS kitemarks.

**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)?**

This would certainly help, but it’s difficult to put it in practice.

**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?**

Usually this problem is due to a failure of information as many investments in energy efficiency can be profitable. So, different administration could develop support structures to help guide and validate investments, according to the methodologies mentioned before, in order to address investors and financial institutions and to improve the risk perception.

The Carbon Trust performs a similar role (albeit not exactly this) in the UK.

In the UK, the Green Investment Bank is likely to promote a better understanding of projects for I&C (industrial and commercial) energy efficiency to prospective investors

Specific financial funds for investments in energy efficiency could also help.

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

In the UK: Components of the Energy Efficiency Commitment and Green Investment Bank (albeit not yet fully functional).

The funding availability from the new Green Investment Bank could demonstrate best practice between public and private financing in order to achieve capital improvements and new investments in energy efficiency.

### **3. Strengthening the regulatory framework**

**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?**

We believe that new EU regulation is not necessary. The existing 2010/31/UE Directive and the coming Energy Efficiency Directive will boost this topic.

However, this regulation must be properly implemented, and technical codes regarding energy efficiency must be developed at European level.

Further information about financial aids and efficient measures in urbanism would also be desirable.

**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?**

Examine best practices from existing MS energy efficiency plans.

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

Inclusion of information in the energy bill of possible energy efficient measures that could lower energy consumption.

Introduction of specific energy efficient subjects in the different educational programs (from kindergarten to university).