



European Commission
Directorate-General for Energy
Consultation Paper “Financial Support for Energy Efficiency in Buildings”
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About EEVS

1. EEVS Insight Ltd is the UK’s leading energy performance measurement and verification specialist, providing independent and expert third-party performance evaluation for energy-efficiency projects in the UK. Our work is founded on, and guided by, the leading best practice framework the *International Performance Measurement & Verification Protocol* (IPMVP). Since 2011 we have successfully evaluated over 350 energy-saving schemes in accord with IPMVP.
2. Our independent evidence-based analysis is essential for objective project evaluation, enabling suppliers to prove their product’s performance credentials while giving end-users the all-important comfort that they are getting value for money. Moreover, by bringing greater transparency to the market EEVS aims to improve the attractiveness of resource efficiency services and accelerate the uptake of the best energy, water and waste efficiency technologies and services. For more information about EEVS and IPMVP please visit www.eevs.co.uk

EEVS Response to Consultation Question

3. EEVS strongly supports the European Commission’s examination of Energy Economy in Buildings and, in particular, the barriers hindering its development. We welcome the opportunity to comment on these issues drawing on our experience of the market for energy efficiency projects, products and services.

Addressing Market Failures

a) Are the barriers identified in this document the most important one?

b) Which market failures would be the most important to address?

4. EEVS Insight strongly agrees with the Commission that one of the most important – and often overlooked – barriers to the take up of energy efficiency technologies and services is a lack of market information. It is our view that the information gap has led to a material lack of transparency in the energy efficiency market that is constraining both commercial decision making and, in turn, the development of the market for energy efficiency technologies and services
5. Access to robust, reliable and consistent information is vital in any market for products and services especially an emerging market like energy efficiency. Details about what technologies do, how they work, how much they cost and, crucially, the benefits they deliver in terms of energy and financial savings. Yet objective and credible performance information is largely unavailable. Not only is it unclear what broad categories of energy saving technologies and services are available in the market place and when they are best deployed but, what they do, how much they cost, and the performance benefits they generate; but the relative performance of players within the market is also unclear. It is far from obvious which are the best-performing technologies and services and which are not.
6. This opacity in the marketplace – especially regarding the benefits of energy saving technologies and services – impacts on all players in the marketplace these are addressed below:

For Customers

7. Most fundamentally, a lack of market transparency constrains the commercial decision-making process and so is likely to hold back investment in energy efficiency.
8. Access to robust and reliable performance information is key to effective commercial decision-making, management and communications to stakeholders. In the absence of this intelligence, uncertainty over performance outcomes means that investment decisions are likely to be deferred as the commercial risks outweigh the potential rewards. As a result, the market for energy efficiency – and delivery models such as Energy Performance Contracts – have not developed as quickly as might have been expected.



9. Alternatively, customers that do make purchase decisions without reliable performance information do so with something of a 'leap of faith' - taking suppliers' word on trust. Yet with vested commercial interests at stake, the savings potential of technologies can often be overly optimistic. Moreover, unsubstantiated claims can later lead to either inconclusive or under-performance as savings fail to materialise. This breeds mistrust which only has a negative impact on the industry's reputation more generally. The experience is likely to result in an unwillingness to make future financial and operational commitments to energy efficiency.
10. A further effect is that organisations are increasingly likely to focus on small scale or low investment measures, such as behavioural change, before considering saving energy through purchase of technologies.
11. A further information issue for customers is around technical complexity. The energy efficiency industry is too often guilty of over-complication and technical jargon can be difficult for commercial decision-makers to decipher, interpret and act upon. In our view the industry is not yet able to speak the language of business – and of finance in particular – and this too makes the industry's products and services difficult for prospective customers to evaluate in standard commercial terms.
12. There is also an issue with customers being inexperienced and hesitant to get involved in the technical aspects of the project i.e. questioning how savings are calculated and if the method used is impartial, accurate and representative. This is also coupled with a lack of recognition of the importance of impartial full M&V at executive level management. As a result the vast majority of energy upgrade projects are undertaken without considering how the energy and financial savings will be measured and evaluated. This basic oversight has led to an information deficit within the market and ambiguity over the success of the industry in terms of financial savings.

For Suppliers

13. When it is available, performance information is generally provided directly by the suppliers themselves. Yet with vested interest at stake the consistency and quality of performance information is questionable and a direct comparison between performance results cannot be



made. As well as undermining client confidence in the industry, this makes it difficult for the low risk, high performing suppliers to distinguish their products and services from other suppliers who have perhaps used less representative analysis methods or unsubstantiated claims in order to achieve the most commercially favourable figure.

14. The above situation, whereby unverified performance claims characterise the marketplace for energy efficiency products and services serves to undermine the credibility of the industry and, in our view, is a significant barrier to uptake. Indeed, even the best performing technologies are likely to be met with scepticism

For Investors

15. To be able to confidently invest in any market, investors need a high degree of certainty and a good understanding of the key risks associated with the investment. Access to high-quality performance information is a key part of the research and decision-making process. As such, investors need to know the financial (as well as the environmental) savings potential of energy efficiency products, projects and services. Only then can they confidently commit capital to the market.
16. The lack of transparency in the marketplace and uncertainty around, for instance, Return on Investment (ROI), payback periods, or other financial metrics means that capital is not being brought into the market as quickly as it could. And while energy savings can generate stable long term revenue returns, investors do not yet consider energy efficiency to be an investible asset class comparable to equities, bonds or real estate.
17. A key issue is that the energy efficiency industry is young and the market relatively unsophisticated – this may be a better characterisation than a ‘market failure’. Commercial infrastructure, readily available in more mature markets, has not yet developed.
18. A key differential for these asset classes is the presence of robust and reliable performance analysis and market information, to help the broad range of players within these markets invest. Well known examples of information businesses are Thompson Reuters, Bloomberg or, for Real Estate, IPD.

19. This equivalent level of investment grade market information does not yet exist for energy efficiency. EEVS has been established with this vision in mind for the energy efficiency market and our long-term strategy aim is to meet these information needs, based on real performance data from the market.

c) How could these failures be addressed?

20. In response to the issues highlighted in the previous section we believe that the following recommendations provide a means of addressing the associated barriers and means to move the energy efficiency market forward.

21. Recommendation 1: Adoption of measurement standard, the International Performance Measurement and Verification Protocol (IPMVP) To understand the performance of any market, product or service it is vital that accurate measurement is undertaken and the International Performance Measurement and Verification Protocol (IPMVP) sets a *de facto* global practice standard for measuring and evaluating the savings performance of energy efficiency projects. A transparent and universally applicable measurement framework, armed with IPMVP-quality performance information, investors, customers and suppliers will all be significantly better equipped to consider and communicate the benefits of energy efficiency – notably the energy and cost savings that can be delivered.

22. In our view this position would support a virtuous circle (whereby suppliers are able to reliably prove their performance; customers and investors are more likely to trust them) that is likely to boost the uptake of more and better energy saving projects, as confidence and certainty increases whilst performance-related risk decreases.

23. Recommendation 2: EU and governmental leadership in relation to its own operations to help drive wider industry momentum. Given the size and scale of EU and wider public sector European estates, there is a key role for European government and public sector organisations at all levels to help fulfil a key leadership role supporting energy efficiency development. By leading the way – and by embedding good practice principles into public sector procurement – the public sector can help build real momentum for the industry which can be transferred in turn to the private sector.

24. For example, embedding the good practice principles of IPMVP into governments' own procurement processes would help to verify the performance of any technology that has been procured as part of energy saving initiatives across large portfolios. As well as helping public sector organisations benefit from much-needed assurance that the energy saving projects being procured will deliver value for taxpayers' money, it will support the development of a critical mass of valuable market information about these technologies and services – improving market transparency and helping the wider private sector make better, more informed and lower risk investment decisions about energy saving products and services.
25. Recommendation 4: EU support for information- and knowledge-building initiatives that aim to support the development of the EU-wide energy efficiency market. Initiatives seeking EU funding have been put together to address the information deficit around the energy efficiency market and put forward proposals to improve transparency across the EU. An example of such an initiative is the *Transparens* project (Increasing Transparency of Energy Services Market) that brings together 21 energy services organisations and institutions from across the EU.
26. If successful in its IEE funding application, the project would take various steps to improve transparency within the energy services market, sharing of best-practice and market experience. In particular the project aims to provide:
- A comprehensive summary of the energy service providers across Europe making it easier for customers to find providers.
 - An overview of the main types of Energy Performance Contract and financing models – with a view to generating good practice models.
 - Enhanced knowledge transfer, training and benchmarking of energy services companies
 - A robust code of standardised industry best practice
 - Promote EPCs through pilot projects

Improving Access to Financing

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

27. In our view (and as set out above), an effective way to boost investment in energy efficiency is to improve investor certainty and reduce financial risk. This can be achieved in part by providing



investors access to objective and reliable performance information (e.g. payback periods, Return on Investment and other metrics) in relation to energy efficiency projects, technologies and services.

28. Currently, this vital decision-making and communication resource is lacking – see above for EEVS views on how to help address this key issue.

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?

29. The use of performance guarantees by suppliers, coupled with independent IPMVP-based performance measurement, can be highly valuable for energy efficiency projects. This approach helps to significantly increase the credibility of a supplier's performance claims in relation to their technology or service, as any under-performance will have to be paid out by the supplier. Therefore making it easier to sell energy efficiency to the market (as risk of under-performance is shifted to the supplier)

30. On the other side of the coin, a performance guarantee has an equally positive impact for customers who can buy with confidence more easily, safe in the knowledge that any shortfall in the supplier's performance – and the promised return on investment – will be mitigated and re-risked under the guarantee.

31. To be meaningful and trustworthy, however, it is vital that performance measurement is carried out to a high-quality, good practice standard (i.e. using IPMVP) and ideally carried out by an independent third party in order to remove any client/supplier concerns over the influence of vested commercial interests. Under these conditions it is our view a performance guarantee can add real value to the market for energy efficiency products and services, and by so doing, support market growth.

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?

32. As set out above, it is our view that greater market transparency – brought about through access to robust and reliable performance information about the energy efficiency market and the players, products and services within – is essential to raise awareness, knowledge and understanding of the benefits of the sector (financially as well as environmentally). With access to high-quality and empirical performance information about prospective investments, investors are able to make informed and considered decisions based on facts – and in this way they are more likely to make positive decisions that favour the industry.

e) Examples of good practice at national or regional level that could be applied more widely?

33. As above, see comments in relation to use of the International Performance Measurement and Verification Protocol (IPMVP) as a basis standardised and good practice measurement of the energy and financial savings attributable to energy efficiency projects.

Strengthening the Regulatory Framework

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

34. As above, a key area that could benefit from greater policy guidance and awareness raising is around evaluating the performance of energy technologies and projects. First, something that is often overlooked is the need to measure the performance of energy saving projects in order to build an evidence base that supports individual projects and industry-wide growth – boosting credibility and trust in the products and services. Allied to this, there is a further need for clear guidance on what an ‘an energy saving’ is. To our knowledge there is no EU-accepted definition and as a result ‘savings’ claims that are reported across Europe are likely to be simplistic, inconsistent and potentially incorrect.

35. Finally, and addressing these points above, there is a need to promote good practice in relation to the measurement and verification of energy efficiency projects (which should include a definition of what an energy saving is). IPMVP is the *de facto* global standard and in our view should adopted by the EU to provide a clear definition of an ‘energy saving’ for reporting purposes (e.g. in company CSR reports) as well as a good practice *analytical process* for measuring and verifying these savings.

ENDS

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