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

**(2) Improving access to financing**

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

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

## **Vattenfall Response:**

Vattenfall would like to thank the Commission for offering the opportunity to share our view on how investments in energy efficiency could be enhanced by improving financial instruments for energy efficiency. Below you'll find our response to a number of the consultation questions.

### ***Introduction: financial barriers are key***

In the consultation document, the Commission addresses a number of market failures and financial barriers as the key reasons why the potential for energy saving remains largely untapped. Vattenfall would like to point out that from our experience, the financial barrier, and particularly access to credit, is the most important barrier for consumers to invest in energy efficiency. Fundamental energy saving measures have high upfront investment costs, while consumers often lack access of credit, which is worsened due to the current economic crisis. Also, consumers lack willingness to invest in energy saving. Customers often decide to use their credit for different purposes, as energy saving does not show a direct, visible result (as opposed to for instance other residential investments, such as kitchen or bathroom). In addition, procedures for financial support (e.g. subsidies, green loans) are often complicated and time-consuming. Hence, addressing the financial barrier is most important in stimulating investments in energy efficiency. We therefore welcome this initiative of the European Commission to gather the view of different stakeholders on how to improve the financial support for energy efficiency.

### ***Market failures: information failure is most important***

From the market failures that are mentioned by the Commission in the consultation document, the information failure is regarded as most important. As most consumers do not have a direct insight into their energy consumption, they are reluctant to change their behavior or invest in energy saving measures. However, consumers are more and more interested in getting insight into their consumption pattern, and the demand for energy management tools is rising. To that effect, energy companies are offering a variety of energy management systems, both online as home displays that give insight in energy consumption patterns, and the possibility to compare this with other benchmarks and even steer devices (thermostats, lightning, heating installation) on a distance. These are promising developments. With these devices, consumers are stimulated to change their behavior and are enabled to better manage their energy usage. However, in order for consumers to invest in fundamental energy saving measures such as insulation and high efficient water heaters, addressing the information failure is not sufficient; the financial barrier should be addressed as well.

A potential problem with the developments in the market for energy management tools, are possible (European) obligations to also impose billing based on real consumption data. In some countries, for instance The Netherlands, energy suppliers currently bill in advance on a monthly basis (equal monthly installments based on the estimated yearly volume). This has a number of advantages for consumers, as they are not confronted with high costs in the winter. This is particularly important for consumers on a tight budget. Imposing billing based on real consumption might thus lead to risks regarding payment behavior issues and to debt collection issues. This should be avoided. It is perfectly possible to offer products & services to consumers that give more insight in their consumption pattern without at the same time adjusting the billing method.

Vattenfall would also like to point out that a number of the market failures that are mentioned by the Commission in the consultation document, are not completely reflecting the reality in all countries. This goes particularly for the statement that energy costs are low and that environmental costs are not reflected in the energy prices. In The Netherlands for instance, the energy costs for households could not be seen as “low”. Actually, the energy costs have risen in the last years, both absolutely as relatively in the total living expenses (from 14% in 2009 to 17% in 2012, according to the “Monitor Living Expenses”<sup>1</sup>). Just recently, due to rising energy prices as well as rising taxes the energy bill will rise with €160-170 per household on a yearly basis. The same goes for Germany, where electricity costs for private costumers have increased almost by 50% since 1998 mainly due to the almost doubling of taxes and duties. Regarding the environmental costs, Vattenfall would like to point out that some of the environmental costs are already currently reflected in the energy price, namely via the CO<sub>2</sub> price, as well as through supplements on the energy bill related to sustainable energy (feed-in tariffs and supplier obligation).

Furthermore, Vattenfall would like to point out that energy efficiency measures must be cost effective, so a clear distinction should be made between the theoretical technical potential and the economic one. This would mean that the highest efficiency class of devices could be unrealistic.

### ***Addressing the financial barrier: improve access to credit***

To address the financial barrier for consumers to invest in energy efficiency measures, the following issues should be addressed:

- *Enable all market players to offer financing solutions*  
In some countries it is currently difficult for all market players to offer financing solutions for energy efficiency measures. This has to do with regulation on offering financial products and services. To make it easier for market players to offer financing solutions, these regulations should be evaluated and addressed if possible. This is currently for instance being done in the United Kingdom, as part of the “Green Deal”. Furthermore energy suppliers are often excluded from subsidy programs. In Germany for example, energy suppliers are, unlike all other competitors, not allowed to acquire subsidy programs for their customers. This does not only lead to a distortion of competition but cuts off the unquestioned expertise of the whole branch. Technical know how and not sector affiliation should therefore be the prerequisite to the access of subsidy programs.
- *Make credit offers more attractive to consumers*  
In most countries loans for investments in energy efficiency measures are offered against normal interest rates, which make them less attractive for consumers. Also, often banks are not interested in offering small loans, but have a “floor”, leading to relatively high minimum loans, while investments in energy saving generally are lower: between €2.000 and €3.000 euro.  
To address this, the government can play an important role for instance by offering a guarantee system, or by investing in a green fund for investments in energy efficiency, via which market players could offer financial solutions. This will ultimately lower the interest rate, leading to better access to credit for consumers. This should preferably be done on a national level, as circumstances differ in different EU countries. A centrally managed financial instrument at EU level is therefore less effective.
- *Improve accessibility to financing instruments*

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<sup>1</sup> Source: COELO

The process for consumers to get funding for energy efficiency measures should be simple and accessible. Consumers should not be confronted with excessive procedures and preferably have one single point of contact when applying for funding. This goes especially for instruments on EU level, that are in practice almost impossible to use for private customers, especially household customers. Private as well as SME customers often have a relatively close relationship to their familiar “house banks”. This should be consequently used when trying to address this group of consumers. For example the German KfW (Kreditanstalt für Wiederaufbau) provides a broad variety of low interest loans, which are in high demand. The administrative procedure is processed via the familiar “house bank”, which makes it very accessible for household customers.

Furthermore, Vattenfall would like to point out that public funding should be used to complement, and not in competition to, the market for energy efficiency measures, with the aim of promoting positive spin-off effects for society. Also, public funding needs to be non-discriminatory, i.e. open to all market players, including energy companies.

When tackling the financial barrier the key question is where to find the financial resources needed for a sustainable support system. Due to the current financial crises in Europe, resources that are independent from the state budget are attractive. This could lead to contributory systems, where energy suppliers or DSO's are obligated to raise money for efficiency measures and then socialize the cost via the energy or grid prices. Vattenfall would like to state that energy efficiency costs should never be socialized via the electricity grid fee, in order to avoid distortion between locally generated electricity for own use and electricity generated for supply to final customers via the grid. Furthermore, Vattenfall argues that these kind of systems should not be imposed by the European Union, as these systems have an impact on the financial position of consumers. Whether or not energy efficiency measures should be funded through the energy bill or through state budgets is the competency of national authorities. In Germany for instance, energy efficiency measures are funded through a state fund, the German Energy and Climate Fund which is financed by the earnings of the CO<sub>2</sub> allowances. This has proven to be very effective and beneficial for both consumers and energy companies.

Sharing knowledge on European best practices could be supportive to the functioning of new initiatives on national level. Best practices would also contribute to lower the risk perception of external financiers (e.g. financial institutions or private investors) and encourage them to get involved in energy efficiency investments. Initiatives in the United Kingdom and Germany on investment funds are good examples of best practices.

### ***Strengthening the regulatory framework***

At EU level the current proposals in the EED and EPBD offer new incentives to enhance the energy efficiency in the built environment. Therefore, Vattenfall does not see the need for additional European legislation on energy efficiency in the near future. However, Vattenfall would like to point out that a stricter supervision on the compliance of existing European obligations is desirable. For instance, the obligatory energy label as introduced by the EPBD is not yet implemented in all countries, i.e. The Netherlands. Furthermore, the current EED framework addresses mainly energy efficiency investments in existing buildings. For energy investments in new buildings, Member States or the EU could develop new programs to lower the EPI and stimulate investment in new buildings.

Furthermore, stability of the regulatory framework is key. In some countries different subsidy schemes have been installed, abandoned, and installed again. This is damaging for the

market in energy efficiency. A long term view, with stable policy measures is key in developing the market.

Member States should have the flexibility in what specific energy saving measures to incorporate in energy efficiency policies, for instance the inclusion of heat. Currently, policy instruments that aim to enhance energy efficiency are targeted at investments in the buildings itself, and not in the integral energy system. An example is the fact that the energy label does not take into account energy saving from district heating, while this contribute as much to energy saving as high efficient water heaters. Vattenfall therefore recommends further promoting the use of high efficient heat from district heating or heat pumps, and incorporating this as much as possible in existing incentives for energy efficiency, such as the energy label.

Regarding stimulation of public awareness, Vattenfall would like to point out that raising awareness for energy efficiency can not be achieved overnight but needs a long and sustainable learning process. Long time campaigns like the German dena (Deutsche Energie Agentur) in close cooperation with the affected industrial sectors showed good results.

***Conclusion: improve access to credit on the national level***

Concluding Vattenfall would like to state that in order to increase investments in energy efficiency in the built environment, improving access to credit for consumers is crucial. Besides attractive interest rates, consumers should be offered favorable conditions and less administrative procedures. Market players should be stimulated and enabled to offer financial solutions, via Green Funds. Governments play a crucial role by investing in these kind of funds for energy saving, offering warranty and if needed adjust regulation. Vattenfall therefore welcomes the interest of the European Commission in improving financial instruments for energy efficiency measures. However, due to the different national circumstances, financial support would be preferably being offered on a national level.