

The Coalition for Energy Savings

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

(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?

In principle yes, but there are certainly many underlying factors that have an impact on the barriers. BPIE summarized the main barriers in a report which was published in October 2011¹.

(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?

Analysing market failures means to assume that a market for energy efficiency exists in reality. However, such a market exists only partially at best in a very small number of EU member states (such as Germany) or at the level of some EU regions (such as Upper Austria Region). In fact, there is a need in most member states to establish such a market which would require to trigger demand for energy efficiency services from building owners and occupiers, and to stimulate supply of respective services. In order to achieve that demand and supply, an incentive and regulatory framework needs to be established. Market failures most urgently to address include:

- Buildings owners, managers and tenants lack awareness about energy efficiency options. There is insufficient access to independent and product neutral information about energy saving technologies, products and energy efficient techniques for buildings.

Ideally, proper information would be provided through a system of “one-stop-shops” for building owners and occupiers. These information points should be supported by a network of independently certified energy efficiency advisors who would be trained to provide an analysis of the energy saving potential of a building through a site visit, as each building will require a different solution. The

¹BPIE 2011: Europe’s buildings under the microscope, page 55

costs for such on-site consultancy could be subsidized through income tax benefits, or through property tax reductions or similar measures, such as a reimbursement through the company which eventually would execute the renovation measures. One of the main goals of such a system of one-stop-shops and energy advisors would be to lower the access threshold to credible information and to ensure the reduction of mistrust which the target group may have towards the construction industry in its broadest sense.

- Effective monitoring and control systems for compliance with building codes and standards are often missing. As proven by several projects and studies, the real performance of buildings can significantly differ from than the anticipated/calculated performance at design stage.

Consumers need to have full certainty that they get what they pay for when renovation work is done, or when a new building is supposed to deliver a pre-defined energy performance. Penalties for non-compliance need to be severe to have an effect to establish an industry code of high compliance targets.

- Access to finance: Innovative financing models should ensure that financing for energy efficient renovation measures in a building is available even if the owner “falls through” the normal screening of commercial banks (e.g. due to advanced age or uncertain income situation). Third party financing should be developed beyond current ESCO models, such as through the creation of public-private partnerships to pool individual small-scale projects in the residential market into bigger and more financially attractive projects (see also answer to question 2b).
- Inappropriate financing schemes can also contribute to market failure when they are not well-tailored to the market potential and to the need for bridging the financial gap for new and more energy efficient technologies and techniques. A too high grant/incentive can block the market development and commercial activities, while insufficient incentives will not stimulate the market enough.
- Energy efficiency marketing: it is necessary to find innovative ways ‘to sell’ energy efficiency by highlighting the additional benefits with higher perceived market value, such as increase in thermal comfort, less indoor noise, increase in the sustainability of the building, higher market value with lower depreciation over the time, etc. The basic question is how to convince individual owners to forego high investment consumption and to invest in energy saving measures for their property.
- Split incentives are a classical market barrier for energy efficiency. The most important split incentive barrier is the failure to integrate the societal (climate change, less pollution, energy security) and economic (job creation and associated taxation) benefits into the public expenditure and to offer proper incentives. Hence there is still a need for more consistent actions at the central/local government levels in order to exploit the energy efficiency potential in creating welfare and sustainable economic activities.
- Holistic energy efficient measures in buildings have a high upfront capital, a longer pay-back period and are often perceived as being unattractive on commercial basis. A significant market failure is the lack of long-term predictability of the support schemes which is a serious investment barrier for the business sector and (pension) funds. A holistic approach to the energy saving measures may achieve higher energy savings with a lower total investment.

However, there is a lack of holistic renovation offers on the market; it is necessary to stimulate the market transformation in this direction.

- Occupancy can dramatically increase the energy consumption in buildings due to a wrong behavior inside the building. It is necessary to stimulate the behavioural change of the building users by, for instance, providing a building handbook indicating how and in which conditions the maximum performance of energy saving equipment can be reached.
- There is a principal need for capacity building in several EU countries about energy saving opportunities in the built environment, while scaling up existing structures in other countries.

In addition, the existing regulation on Energy Performance Certificates should be implemented in a more effective way. EPCs need to be reliable in the information they provide, need to give clear and understandable advice to consumers about the efficiency level of a building, and need to be spread effectively into the real estate market. Further, the reliability of the information on an EPC should be checked regularly, e.g. by requiring building owners to hand in their annual energy bills for heating and cooling. This could be incentivized through tax benefits, e.g.

Public buildings, in particular those with high visitor traffic, should be required to display their EPCs in a highly visible way so that there is an education effect over time. Essentially, building owners should reach the same awareness level about the energy consumption of their building like (most) car owners have about the fuel consumption of their vehicle.

(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?

The existing EU-level financial tools are not as effective as they could be. Existing EU funds are not clearly directed/earmarked for improving the energy efficiency of buildings but support energy efficiency activities in general. In our opinion, a distinct Buildings Performance Fund (for renovation and potentially high efficiency new buildings) should be established at EIB, to establish a clearly defined funding line dedicated exclusively for improving the energy performance of buildings.

At the moment, cohesion funds address the less developed regions of the EU, while other regions also have a need to improve energy efficiency in buildings. Hence, the Buildings Performance Fund should go beyond the actual cohesion funds, complementing the cohesion funding and supplementing the actual JESSICA funding instruments.

Current EU-funding is not fully used and some countries hardly use EU funds to improve energy efficiency in buildings. In order to increase efficiency, funding should be earmarked precisely for this type of activity. Conditions for receiving this funding should be defined, such as the achievement of energy savings/CO2 reduction above a certain threshold and well beyond the actual building standards in the region.

A Buildings Performance Fund should give long-term policy certainty beyond the normal budgetary cycles of five years, as payback period for energy saving investments can be longer. Most actual funding schemes lack predictability and are planned only for a few years, in some cases with a fluctuating annual budget. The Fund should therefore run for at least 10 to 15 years. Other financial institutions should also be encouraged to build a bigger equity revolving fund in order to increase the magnitude of the EU funding. A condition for spending the EU funds should be the existence of a well-functioning and efficient enforcement/compliance system with associated control and monitoring systems implemented by independent bodies.

National Plans and roadmaps for increasing the Building Performance should support investment activities with clear interim and final milestones and action to reach these milestones (such as renovation rates and depths).

A concerted effort at both EU and MSs levels is needed so that EU funding on energy efficiency in buildings will foster market uptake and transformation.

Therefore, the future role of centrally-managed financial instruments at EU level should be:

1. A solidarity based funding stream in order to deliver financing for the less developed regions
2. A technology innovation based funding stream to partially finance the market gap for new and energy efficient technologies and techniques
3. A capacity building based funding stream to support the development of local energy efficiency markets by financing capacity building and planning

(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.)?

Private financing could play a key role in increasing the rate of energy savings investments. Different investment vehicles will be needed for institutional investors and private investors. A regulatory framework should be developed which triggers funding streams from investors. Such a framework should support pooling of renovation projects to supply large scale opportunities, should support investment security by introducing warranty systems for energy savings, and should enable project owners to access funding for energy saving renovation measures easily.

(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)?

Yes, energy efficiency services and products should come with a warranty that the expected savings are achieved, as this would lower the investment barrier. As energy savings are also highly dependent on user behavior, a warranty system needs to reflect that and should build in respective monitoring systems.

Another way to enhance confidence and to trigger building investments is to stimulate ESCO development in the building sector by facilitating the aggregation of smaller projects into bigger ones which are more attractive for investors. Offering support for third party financing by creating a favorable legislative framework for building partnerships between ESCOs and private financing institutions (banks, investment funds) will be important. By providing the technical support (which is a missing link on the energy efficiency market for buildings), ESCOs may give savings and investment guarantees to both beneficiaries and investors. Public-private partnerships can be also a suitable solution in order to guarantee the investments. Predictability of public support schemes (with long-term planning and economic instruments fixed for a longer period of time) is key in offering confidence to private investors.

(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?

There is a need to increase knowledge and to build capacity with the financial community about the business case of energy efficiency in buildings. Mainstream financial institutions should have more exposure to energy efficiency success stories. Training measures for respective actors in the financial community could increase the understanding.

(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?

As the political debate about the EED is still ongoing, it is impossible to judge how effective the EED will be in driving the energy efficient retrofitting of the European Building stock. However, it is foreseeable that even an ambitious EED will not be sufficient to stimulate the renovation of the European building stock which would be in line with the achievement of the EU's energy savings and CO₂ reduction targets. In 2011, BPIE developed scenarios for the renovation of the European building stock which

would allow the achievement of above goals². It became clear that additional policy measure will be needed.

The European Commission should consider proposing a “feed-in tariff for negawatts”, i.e. to introduce a regulatory framework which would enable member states to support energy efficiency investments in a similar way as renewable energy investments. This would allow a direct support for investments into energy efficiency measures in the existing building stock. Member states could develop a payment scheme for each kWh of saved energy. The technological possibilities of smart metering and monitoring in buildings enables such a system which could be budget neutral through the tax gains achieved by increased investment activity and through an increase of renovation activities.

² BPIE 2011: Europe’s buildings under the microscope.
http://dl.dropbox.com/u/4399528/BPIE/LR_%20CbC_study.pdf