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Consultation Paper: "FINANCIAL SUPPORT FOR ENERGY EFFICIENCY IN BUILDINGS"

Thank you for releasing this consultation on what is a very important area of activity for enabling the EU to meet its 20 per cent energy efficiency target by 2020.

The Greater London Authority agrees that addressing the market barriers to implementing large-scale energy efficient retrofitting activity will be fundamental to being able to deliver the scale of activity needed to meet this target.

The three areas raised in the consultation: addressing market failures, improving access to finance and strengthening the regulatory framework; are all certainly areas where important improvements can be made to really help the energy efficiency market operate more effectively.

London is doing a lot of work in these areas to help stimulate and develop the market for energy efficient retrofitting as it forms a vital part of the Mayor's portfolio of climate change mitigation programmes developed to meet his 60 per cent carbon dioxide emissions reduction target for 2025. Whilst these are generic barriers to the energy efficiency market we believe that there are also specific national or regional barriers that exacerbate these barriers and in London we are doing a lot of work to address these to make energy efficiency more financially viable within London compared with the rest of the UK. For example the diversity of London's housing stock and tenure, the number of flats and the dense mixed-use urban fabric of the city all contribute to increased delivery costs for energy efficiency activity in London.

Please find below a brief response to the consultation but we would really value the opportunity to meet with you to talk through in detail the issues facing London, the programmes we have in place and the areas where we think the Commission can really help member States to drive the scale and speed of energy efficiency activity in buildings.

We particularly welcome the suggestion that European Regional Development Funds should be more concentrated in the area of energy efficiency and renewable energy in more developed regions. On top of this we think that where European Regional Development Funds are being used through JESSICA, or a similar investment mechanism i.e. not as a grant, they should not be subject to the same restrictive eligibility criteria. For example in London the majority of housing stock is privately owned and that European Regional Development Funds invested through our JESSICA Fund should be able to invest in energy efficiency programmes operating in the social, owner occupier or private rental sector.

There should also be consideration of how investments through JESSICA, or a similar investment mechanism, can be made in the next programming period at interest levels below commercial rates. This could help accelerate implementation of energy efficiency activity where the market is not yet sufficiently developed to deliver activity at the necessary speed and scale with investment using commercial rates of interest. The idea is that it would work in a similar way to how the 'Feed-in-Tariff' has helped to develop the renewable electricity market in Europe by stimulating demand for photovoltaic technologies and ultimately bringing down the capital costs of the technologies and therefore the pay-back time for such projects.

In London the RE:FIT programme, explained in the next section, uses an 'energy performance contracting' model to deliver energy efficiency activity in the public sector. Presently we only have an on-balance sheet financing model but are now trying to establish an off-balance sheet model as well and any support from the Commission to develop this would be of value not only to London but the whole of the EU.

Overview of London's position

London has set a 60 per cent carbon dioxide emissions reduction target for 2025 and this will be achieved through a combination of extensive energy efficiency retrofitting of existing buildings and the development of local, low carbon decentralised energy capacity capable of supplying 25 per cent of London's energy demand.

London's carbon dioxide emissions in 2008 were 44.7 million tones; this was made up of 36 per cent of emissions from homes, 42 per cent from workplaces and 22 per cent from transport and means that nearly 80 percent of London's emissions are associated with energy supply to and energy use within buildings. This shows why London's two priorities for mitigating climate change and meeting its 60 per cent carbon dioxide emissions reduction target are energy efficient retrofitting of existing buildings and developing local, low carbon decentralised energy generation and distribution capacity.

The challenges to delivering energy efficiency that the paper has highlighted are very real challenges that London is attempting to address to varying degrees, either directly or indirectly through lobbying appropriate bodies, and these are then compounded by challenges specific to London that make the delivery of energy efficiency activity more challenging still.

London's existing activity

London has two established energy efficiency programmes, one working in the residential sector through RE:NEW and the other in the public sector through RE:FIT and is looking at how it can establish a programme to support the private sector, both Small and Medium Sized Enterprises and larger companies, in implementing energy efficiency activity.

RE:NEW is a programme for London's homes aiming to retrofit 1.2 million homes by 2015, the largest programme of its kind in London. It takes an area-based, door-to-door, hassle-free approach to home energy efficiency retrofitting and is delivered through and with the London boroughs. Eleven-thousand homes have already been retrofitted, with a total of 55,000 due by end of March 2012. The Mayor is working to integrate RE:NEW with new energy efficiency and energy supply funding streams, such as the Green Deal and the Feed-in Tariff, so retrofitting can be free upfront for all homes through a pay-as-you-save model, offered to all London homes by 2030.

RE:FIT is a programme for London's workplaces aimed at retrofitting London's public sector buildings. It has already secured guaranteed energy savings of £1 million per year for the GLA group from 42 pilot buildings. The model is available to every public sector organisation in London. One-hundred-and-forty organisations have already shown interest in the model to date, with 200 buildings committed to be retrofitted, to the combined value of over £35 million. It has secured ELENA funding to support with the development of a pipeline of projects.

London Green Fund (JESSICA) - London has made full use of the JESSICA mechanism within its European Regional Development Fund Programme to establish a £100m Fund to support the delivery of environmental infrastructure in London. The main areas of activity for the Fund are: energy efficiency, decentralised energy and waste management. This is playing a fundamental role in helping London to deliver projects that are financially viable and able to make a return on investment. These will help to prove the business case and establish acceptance of the investment case for environmental infrastructure and so make it easier to raise private sector finance to support future delivery.

Responses to Consultation questions:

Based on the clusters of barriers identified in the previous chapter, stakeholders are requested to provide answers on the following questions:

(1) Addressing market failures

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

Yes, generally they are especially at a European level but as explained earlier there are also national and/or regional issues that work to exacerbate these barriers. This means that additional activity is sometimes needed on top of what may be developed to make a real difference to a local energy efficiency market.

(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?

'Energy market prices do not reflect all environmental and social costs' is the underlying issue that has created climate change so clearly this needs to be addressed with real urgency but it needs to addressed across all sectors, not just in one, and at both a Global and EU level.

Split incentives and Information failure can be addressed at either a National or European level.

(c) How could these failures be best addressed?

Split incentives - In the UK the development of the Green Deal has started to help address this by providing free up-front finance to the building owners that is paid back over time by the tenants from the savings made on their energy bill.

Information failure - This can be addressed by supporting more energy efficiency demonstrator projects across Europe but ensuring that they are financially viable and include monitoring of energy consumption both before and after installation of the measures so that the savings can be illustrated in real life situations. This has so much more influence with private sector funders than calculated estimated savings from typical measures in generic building types. This would also help develop the energy services market for households by having real life examples to develop the market with.

(2) Improving access to financing

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

Yes to a degree, but in recognition that they are trying to support activity in a very immature market with existing market failures there needs to be consideration how they could be made more effective by allowing them, at least in the next programming period, to provide investment finance through JESSICA, or an equivalent mechanism, at a level that is better than the available commercial rate. This would help to drive take-up of energy efficiency measures whilst continuing to develop the commercial viability of the projects and the viability of the market place.

The RE:FIT programme at present is only able to fund its 'energy performance contracting' model through on-balance sheet finance but it is would make a real difference to the scale of the project if it was also able to offer an off-balance solution for public sector organisations as well. Any support that the Commission could provide to help develop a funding mechanism that can make use of off-balance sheet finance would be of great use not only to the RE:FIT programme but to all of Europe as it would provide another legitimate way for organisations to fund their energy efficiency programmes whilst also providing support for the energy services sector.

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

The funds should be made available for all energy efficiency across all buildings types (both residential and workplaces) and tenures (social, owner occupier and private rental). For example in the residential sector ERDF is too prescriptive as it can only support activity in social housing and in London only 23 per cent of its stock is social housing so it has a considerable impact on developing and delivering large-scale area based programmes.

JESSICA, or other investment mechanisms using ERDF funds, should be able to offer commercially favourable rates whilst market failures still exists within the market place to help drive take-up and delivery of energy efficiency programmes.

Centrally-managed financial instruments at EU level could be used to provide additional finance to existing JESSICA, or equivalent funds, and also invest in areas or activities where ERDF investment is ineligible.

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

This can best be best mobilised by firstly delivering actual energy efficiency programmes with pre- and post-monitoring data on carbon, energy and financial performance to prove the business case and illustrate that that type of project can actually make a Return on Investment in a real life project.

The next or parallel phase would be to provide technical assistance, similar to the ELENA mechanism, that would be available for all member states, even if they are delivering similar activities, so that they have the opportunity to establish a dedicated team of people working to develop a pipeline of projects in areas where a 'Return on Investment' has been proven. It is only when a pipeline of investable projects is actually identified and available that private sector financiers become really interested in funding activity as you are able to actually present them with a real investment proposition and not a theoretical one that may be available sometime in the future.

As mentioned earlier by making the investment funding available through JESSICA, or equivalent approach, eligible for all building types and all tenures. In addition to stimulate the market and prove the viability of projects there should be the opportunity within the next programming period to offer these investments at rates that are better than the commercial sector can offer as the cost of finance is one of the barriers to developing this market.

(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)?

It would be really useful to be able to use EU funds to guarantee savings in energy efficiency projects in the way that an 'energy performance contracting' model does as this would help with generating take-up of energy efficiency activity in all sectors whilst the market is still immature and unsure of exactly what level of savings can actually be made.

Yes, there is a need for other enabling mechanisms to be available to support this market and risk-sharing investment vehicles are important in an immature market where the private sector is not willing to take the full financial risk of an investment.

(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?

One way would be to collect a selection of real life worked up examples of how energy efficiency has been undertaken within buildings that have been monitored pre- and post-energy efficiency intervention to illustrate what the real life financial, energy and carbon savings from each example is.

(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 RE:FIT programme in London has developed good practice examples of how using an 'energy performance contracting' model for energy efficiency retrofitting in the public sector can increase the rate of activity in this sector.

The UK Government's flagship policy in the Energy Act 2010-12 is the Green Deal and this offers a new approach for energy efficiency in the residential, public and commercial sectors by offering up-front finance for energy efficiency measures that is then paid back through the expected savings of the measures. This is an innovative approach but it needs to be complimented by an extensive range of activity to develop the market and encourage take-up of measures. Technical assistance support from the EU could play an important role in working with the players in the market to make the case for energy efficiency to potential customers and so help drive take-up of the Green Deal.

(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?

No, not at present as we need to let the Energy Efficiency Directive become established within the EU before assessing if any further regulation is required.

(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 UK Government is currently developing the Green Deal and it is this national framework that will set the context within which much of EU-level regulatory framework for energy efficiency will operate.

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

The energy efficiency market needs to be broken down and its players need to be identified so that tailored guidance can be provided on each element of the market and for each specific player within it.