

Financial Support for Energy Efficiency in Buildings

public consultation response

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Transparency Register id: 3960234639-24

Improving energy efficiency is improving our competitiveness. Besides the many power-system gains¹, energy efficiency also includes many non-energy benefits, including additional resource savings (*e.g.* water), building durability, health and safety. Despite this, and many other proven cost-effective opportunities for reducing energy consumption, the potential for energy efficiency remains largely untapped. The reasons for this are complex, systemic and methodological.

Under present economic conditions, with restrained public finances and a widespread lack of sufficient confidence to make investments, this task is not easy, even if it could bring advantages in a relatively short time. As alluded to in the *Financial Support for Energy Efficiency in Buildings* supporting document, dramatically improved energy efficiency in buildings is both achievable and economically desirable. However,

- low awareness of the environmental impact of buildings;
- the sector's complexity, fragmentation, and lack of genuine champions;
- lack of know-how and experience in green construction;
- lack of financial instruments to reward energy efficiency; and
- life styles that are not focussed on energy saving;

threaten our ability to achieve the efficiency savings potential, and our ability to address other, related goals like climate change mitigation, and our economic well being.

At the Quaker Council for European Affairs, we believe the energy savings potential continues to be greatly underutilised, with the public particularly underestimated for their impact to deliver on energy policy. We also believe that innovative methods must be developed so as to address the issues of information and financing for end-users more directly. Most important is to ensure a profound, sustainable, long-term development towards much better energy efficiency, as a continuation of our middling, short-term outcomes is unlikely to lead to sustainable results.

“90 per cent of our time is spent in buildings”

Although the message is clear – energy efficiency in housing is a no regrets option – market and regulatory failures, as well as disincentives at the local level, inhibit access to energy efficiency financing. Institutional clients of EU funding cite recent fiscal consolidation by the EU, prohibitive EU State Aid regulations, and high, up-front construction costs as the principal reasons holding back increased investment. Significant regulatory reform, throughout the EU, is also seen as prerequisite (for example, Italy's maximum contract duration of 11 years is only a quarter of what is practically viable in some cases). And while technical assistance is filling a real gap, minimum

¹ Including increased production, transmission and distribution capacities, not to mention averting increasing reserve volumes, avoided greenhouse gas emissions, and line loss reduction.

project-size requirements can also present a significant obstacle to applicants, particularly as the bidder and provider do not share the risk, and because there is no mediator to defend the interests of clients (e.g. local authorities / social housing organisations). The European Energy Efficiency Fund was also slated for its commercial interest rates and unfavourably short repayment periods.

Although financing to enhance energy efficiency is primarily a national responsibility, the European Union supports efficiency savings through its Cohesion Policy programmes, the Intelligent Energy Europe Programme, intermediated finance, the European Economic Recovery Programme, the Framework Programme for Research and Development, the Competitiveness and Innovation Framework Programme, the LIFE+ programme amongst others. Nevertheless, with annual rates of new construction and renovation both stuck at 1% of the overall market, a credible policy strategy for speeding up Europe's low-carbon, energy-efficient transformation is lacking. In a bid to generate investor confidence, energy performance insurance could be developed and promoted to mutualise the risk among investors. Certification of Energy Performance Contractors (EPCs) by independent auditors could also address the perceived risks by clients², boosting the realization of the European energy efficiency savings strategy, and transforming the way buildings are designed, built and used.

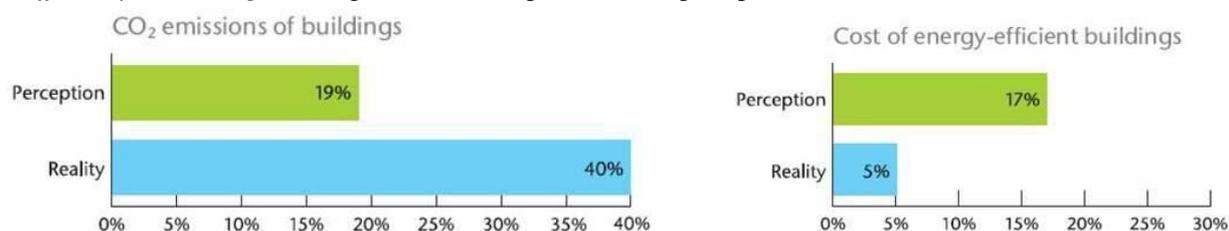
A coherent, dynamic, and pro-active energy policy

Support and incentive schemes must also be continued over the long-term, preferably within a single, integrated, demanding, and exacting legal framework. At the moment, the maze of directives, regulations and strategies hampers implementation, co-ordination and verification. In addition, the multiple funding streams and management authorities, with their different procedures and funding requirements (including disparate application deadlines, response demands and continuity likelihoods) result in sub-optimal participation rates and needless complication and frustration by investors. Particularly, it has to be said, for first-time applicants, owing to the considerable staff resources and huge administrative support required.

This argues strongly in favour of better, simplified, increased co-ordination between the funds, or better yet, a single funding stream, and the bringing together of all the possible funding and functions (such as technical assistance, loans for refurbishment, and operational programmes). Such an integrated, or “flagship”, approach, if accomplished, could also result in the perceptual benefits of being seen to prioritise energy savings at the highest European level by consolidating efforts, and ensuring ease of access to all.

To this end, there should also be equal opportunities for all – no region should be excluded *a priori*. The EU Structural Funds should provide each region the same chance to invest in areas of general interest for its citizens. At present, only 6% of the European Regional Development Fund is available to less-developed regions, whilst 20% is available to more-developed and transition regions. Regional GDP, upon which these percentages are based, does not actually provide an accurate picture of the economic, social and environmental performance of all the districts within one region, and pockets of deprivation may remain. Given the substantial socio-economic impact of the Structural Funds, it needs to remain the smart, sustainable, and inclusive investment option.

2 According to the World Business Council for Sustainable Development, in their *Facts and Trends: Energy Efficiency in Buildings* briefing document, the professionals' perception of their own sector:



There is also the perception by participants and outside observers alike that simple measures are mostly being addressed by EPCs, in so-called, “cream-skimming”. This is especially problematic in social housing or in Eastern Europe, where “Factor 4” deep refurbishment largely exceeds the direct investment capacity (even with long-term contracting, the pooling of district dwellings, and self-financing by the owner). In these exceptional circumstances, it is recommended that subsidies need to cover at least 30% of the cost. Which, if integrated with local priorities such as ageing and social exclusion, could create added-value and/or provide the necessary economies of scale.

Further to this end, we must be mindful of the prescient need to invest in the adaptation of European living spaces owing to demographic evolution, and changing ways of living. At a time when citizens are losing confidence in the capacity of the EU and Member States to empower them to face their day-to-day challenges, Europe must support social sufficiency by investing in human and social capital. This must not exclude elderly persons, and those most-impacted by the recent austerity measures (and the consequential rise in unemployment): the young, low-skilled, and migrants. By helping those that need it, the EU avoids exacerbating a “two-speed Europe”, with its attendant social inequity pressures, and the buttressing of vulnerability and segregation.

More generally, fuel poverty (and “under-heating” by tenants), resulting in re-bounce and reduced savings and repayment, could undermine narrow energy savings / energy consumption / energy efficiency guarantees. Consequently, we would advise that, instead of one generic definition for an energy performance guarantee, determined via *in situ* measurement and verification, a family of operational definitions should be considered. Further to this end, at least 15% of the refurbishment costs should be allocated to community outreach and operational awareness, to offset the “licensing-effect” and tendency to re-bounce. For this to be most effective, this should emphasise citizen participation and district life through financial support for smaller measures promoting local self-help and responsibility, on-site consultation, and district social development. Such investments have additional co-benefits for participants as well as for energy providers, property owners, local communities and society as a whole, including vocational training, education, and employment.

Action at the level of the individual household

Reduction of energy consumption is a societal challenge that requires combination of technical, economical, and social means. So far, energy conservation has focused on new technologies and commercial savings, treating users as passive consumers. However, strong evidence suggests that users can adapt actively their behaviour to energy saving with suitable feedback, support, and incentives, reducing significantly and cost-effectively energy use without impacting adversely their comfort. We recommend a number of measures that could encourage end-users to be more mindful of energy efficiency in general and more specifically in buildings:

- free advice on energy and public financing of feasibility studies;
- tax credits and/or subsidies for carrying out "energy audits";
- tax relief for the consumption of fuel for heating, electricity and motive power and economic incentives and deductions/reimbursements for the purchase of energy efficient and environmentally-sound technologies or for the installation of better heat insulation in existing buildings;
- low-interest loans for the purchase of energy efficient equipment and installations (*e.g.* condensing boilers, individual thermostats, *et cetera*) and for work involving ESCOs;
- tax relief or deductions for investments in Research and Development activities, or in pilot projects, with a view to promoting the dissemination of new technologies, in the field of building-sector energy efficiency;
- assistance to families on low incomes and pensioners for improving the energy efficiency, and long-term, low-interest loans aimed at improving the energy efficiency of buildings;

- fixed-price standard packages for regular maintenance services for boilers and centralised air-conditioning installations, to be provided by qualified staff;
- the preparation of European teaching materials, in all Community languages, focussed on the various professional groups concerned;
- the provision of information and training materials for schools at all levels, for professional and union associations, and for consumers and their organisations.

In addition, for individual households, it also has been shown³ that bespoke energy efficiency advice and financial assistance could encourage a significant majority of households (80+%) to cut carbon and save money. By tailoring the energy efficiency service, rather than providing generic information, EPCs were able to capitalise on high levels of public awareness of climate-change to facilitate energy-efficiency investment, including equal-or-greater amounts of self-financing by landlords. The study also found that the perception of the environment being a middle-class concern is false; all social groups made efficiency improvements, with working class households making the most. However, a large number of the improvements occurred just before the project's end, suggesting people need a deadline to ensure action is taken.

Comprehensive and ambitious: a binding savings target for Europe

Although there is a certain level of resistance in some Member States to the idea of having a binding renovation target given the current financial constraints, a 20% **binding** target for energy efficiency by 2020 would represent an essential step towards putting an end to the enormous waste of energy and natural resources from EU buildings. We therefore remain firmly convinced that binding targets (up to and including 2050) are needed to provide the necessary market and investor certainty for delivery of the target, whilst still giving Member States the flexibility to choose measures which best suit their national situation. As everybody knows, governments with clear, consistent and constructive clean energy policies are powering investment forward. Delaying a legally binding target is therefore the wrong message on a subject for which everyone agrees saving energy is the fastest, cheapest, and smartest action, but where far too little is happening.

Today, it is already realistic to achieve over 80% of energy savings in the EU building stock, using existing technologies. What's more, the ESCO business model is more profitable (!) for energy companies⁴. However, the EU and Member States are failing to see the possible benefits for economic stimulation that a shift to more efficient, sustainable business models can bring. The big risk for Europe is that we miss our huge opportunities and enter a disappointing path of economic development with low innovation rates, low growth, and increasing mistrust of the whole European project (forcing down further investment even more).

Energy efficiency is not going to happen naturally. Instead, it requires real policy and legislative focus. We call upon the Commission to implement a genuinely ambitious energy efficiency and savings strategy for the European Union, and demonstrate leadership in this very important regard. Early progress, substantially increased investment levels and simplified, long-term support will not only also lead to higher international competitiveness of European industries, but is also recognised as being vitally important to delivering a low-carbon, energy efficient future for Europe.

Ultimately, the only cost we should be considering is the cost of failure
to realise Europe's massive potential.

³ ENDS Report 423, April 2010, pp. 25-26.

⁴ Centrica in the United Kingdom, makes a bigger profit margin on energy services than they do on energy supply.