

Climate Alliance response to the consultation on the Energy Efficiency Directive

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Summary

The European Union stands at the eve of reviewing its energy efficiency target for 2030, which is currently set at 27%. Climate Alliance urges the European Commission to embrace the multiple benefits a higher EE target would bring about and investigate different scenarios, including the 40% target, which was endorsed by Climate Alliance's members and the European Parliament.

The main messages Climate Alliance wants to highlight during the process of revising the Energy Efficiency Directive are the following:

- Alongside the Paris Climate Agreement, the EED revision provides a major opportunity to trigger adequate energy efficiency measures in all Member States. Initiatives such as the new Integrated Covenant of Mayors for Climate and Energy show the political commitment of thousands of local authorities to take ambitious action towards 2030. **The EED should as well provide a clear, long-term vision with more defined, measureable and tangible targets set at Member State level.** Many European municipalities and cities aim to fully contribute to the EU energy efficiency targets but are slowed down by inadequate national policies. **Therefore, the European Commission should assess the adequateness of national policies and targets to ensure that the 2030 target will be achieved, and, if progress is not sufficient, propose additional measures.**

- If the EU chooses to tap into the cost-effective potential of energy savings, it would drive €714bn of investments and create or maintain 11 million jobs. This means more than twice the aimed potential of the current Juncker Investment Plan. In order to do this, **the EED should upscale the European and national financial support structures, according to the energy efficiency first principle, to intermediaries that leverage further private finance participation and facilitate aggregation of local projects bottom-up.**

- The revision of the EED should lead towards an enforced directive with binding targets at Member State level which are expressed in absolute amounts (Mtoe) of both primary and final energy savings. It should also introduce a stronger monitoring system for compliance and unquestionable definitions to be applied in the national obligation schemes for energy efficiency.

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What is the key contribution of the EED to the achievement of the 2020 energy efficiency target¹?

By providing a comprehensive legislative framework for 2020 and beyond, including EU and national targets and minimum requirements for national programmes and measures that build on the EU efficiency standards for products, buildings and vehicles, the EED significantly increases national activities, strategic thinking and investments in energy efficiency improvements. To be truly effective and provide the necessary pressure onto Member States to develop adequate supporting mechanisms, the EU's energy efficiency ambition ought to be declined into individual binding targets for each member state and national plans should integrate the local authorities' role more structurally in its implementation.

Which factors should the Commission have in mind in reviewing the EU energy efficiency target for 2030?

1. Research for DG Energy shows that the EU could cost-effectively save 40% of its energy consumption by 2030, which is also the target aimed at by the European Parliament.

2. If the EU tapped these cost-effective Energy Savings, it would drive €714bn of investments and create or maintain 11 million jobs, according to a comparison with a business-as-usual scenario projection from Primes 2013. This means more than twice the aimed potential of the current Juncker Investment Plan.

3. The 6,700+ signatories engaged in the Covenant of Mayors voted on 15 October 2015 to start implementing the EU 2030 targets via their Sustainable Energy and Climate Action plans, with a strong focus on energy efficiency measures and policies. Therefore the other levels of government (EU and national) should also start creating a post 2020 vision for the EED.

"The Paris agreement on climate change and 1.5°C limit will require stepping up energy efficiency policies , says Climate Alliance President Tine Heyse, Deputy Mayor of Ghent (BE).

4. Considering that electricity demand is projected to increase in the years to come (notably as a result of the increased market penetration of e-vehicles) specific programmes for the reduction of electricity consumption should be encouraged at member state level.

5. The Commission must improve its impact assessment approach and move from least-cost to a cost-benefit-analysis of energy efficiency as public authority, rather than using private discount rates.

What should the role of the EU be in view of achieving the new EU energy efficiency target for 2030?

The EU should put a strong focus on best practice exchanges and capacity building, as a key way to scale up success and impact. The fact that there is no current alternative to programmes like Intelligent Energy Europe, aimed at civil society involvement and the support of "soft measures" (as opposed to "hardware" or more tangible infrastructure and research-related investment), is a worrying trend that should be corrected in future

financial framework developments.

The EU must propose a binding 40% energy efficiency target for 2030. The EU must secure the maximum accountability for all relevant actors, as expressed by a binding target, which while being complemented with minimum and harmonised EU policies and requirements, in particular internal market issues, leaves the necessary flexibility to MS. The EU should provide the long-term ambition and strategy to ensure investor certainty.

The implementation of policies and measures should be closely monitored, better evaluated and more strongly enforced by the European Commission, which should also provide Member States with clear guidance. Many European municipalities and cities aim to fully contribute to the EU energy efficiency targets, such as in the framework of the Covenant of Mayors, but are slowed down by inadequate national policies. Therefore, the European Commission should assess the adequateness of national policies and targets to ensure that the 2030 target will be achieved, and, if progress is not sufficient, propose additional measures.

Are the existing EU energy efficiency requirements for public procurement sufficient to achieve the needed impact of energy savings?

There is a need of more clarity to translate the EU requirements in ambitious national policies to guarantee an energy savings impact. This means:

- Streamlining the Public Procurement Directive (2014/24/EU) and other energy efficiency legislations (EED, EPBD, Ecodesign and Energy Labelling);
- Deciding on unquestionable definitions for sustainable public procurement criteria (in selection output and progress phases) instead of the volatile interpretation by the Member States.
- Energy efficiency requirements in public procurement are not sufficiently included in the EED, 'a high performance of energy efficiency', as stated under paragraph 1 in Art.6 needs to have tangible criteria to award public tenders.
- The European System of Accounts needs to provide clear instructions for the accountancy of public procurement in energy services and those investments leading to cost-effective energy efficiency gains should get supportive accounting mechanisms.

How could public procurement procedures be improved in the future with regard to high energy efficiency performance?

The EC should address some wide gaps that prevent public authorities from a sustainable - life-cycle assessment- procurement process via the following recommendations:

- > Remove the discrepancy in EU financial and energy legislation: at the one hand the EED defines targets (Art.3, Art7.) in order to achieve the overall 2030 energy efficiency target. It is generally accepted that this would require investment volumes of more than EUR 100bn annually. At the other hand, the Stability Pact regulation and ESA 2010 procedure (Eurostat) prevent public authorities with a higher debt ratio from positive investments that lead to net energy and financial savings. Current legal constructions are not feasible for local authorities and hamper deep(er) renovations via energy performance contracting where only render leasing could lead to accepted bookkeeping (cfr. EUROSTAT guidance note on EPC of 07/08/2015).

> As more than 60% of the EU's public investments are coming from local authorities, this level of governance should be integrated in early policy development stages for improved public procurement procedures and PPSs.

> Energy efficiency performance can be seen as a new and growing sector, with new stakeholders (ESCO's, facilitators) and alternative business models (energy performance contracting). This requires updating the current procurement procedures and art.6 to the new reality of PPPs, municipal companies, financial instruments, SPVs, etc.

> Green public procurement requirements should become more specific and less open to interpretation by the member states. They should have clearly defined energy performance and sustainable life-cycle criteria in the tender awarding criteria, selection criteria and output specifications. It should be extended to all public contracts, including for new and existing buildings.

Do you think that there is sufficient guidance in your country to characterise "energy efficient products, services and buildings"?

No. Improved guidance is necessary in the following areas:

> Further use of energy labeling is needed to provide guidance on energy related products and services.

> Further support in terms of capacity-building for all levels of governance is necessary for life cycle cost assessments and methodologies for monitoring energy performance to public authorities should be considered by the EED revision. EU support for capacity building could come from H2020 Coordination and support actions, ManagEnergy, the BuildUp portal and through initiatives such as the Covenant of Mayors.

> Improvement of standardisation and harmonisation of energy performance certificates and services. This is necessary to reduce the risk level appointed to energy performance measures due to higher levels of uncertainty.

> Local authorities often lack the necessary technical, legal or financial expertise to plan, develop and implement bankable investments in the field of energy efficient products, services and buildings. In order to address this shortage of skills and resources, the EU provides relevant support through its Project Development Assistance facilities².

Have you seen information campaigns or other public initiatives in your or in another EU country that explain public procurement of energy efficient products, services and buildings?

² For example the ELENA facility, which has leveraged via €100 million of Technical Assistance a pipeline of €4,8 billion of (expected) investments. This substantial track record improves the market uptake in this field. However, the next step is to replicate the successes across Europe, bundle also smaller scale projects (within one and between different local authorities) and provide even more technical assistance and capacity-building support to the small and medium-sized municipalities that need it more.

The Intelligent Energy Europe programme funded the ProcA project, which promotes green public procurement (GPP) among public authorities. The project primarily focuses on signatories of the Covenant of Mayors (CoM) addressing GPP in their Sustainable Energy Action Plans (SEAP). The guide "[Green Public Procurement in Sustainable Energy Action Plans](#)", supports municipalities and local governments through the various phases of SEAP development. It offers a theoretical background on green public procurement while providing the practical information necessary to a successful incorporation into municipal planning. The guide also offers tips, practical advice and best practice examples.

Do you believe that the current 1.5% level of energy savings per year from final energy sales is adequate?

Currently, the minimum requirement only delivers a level of 0,8% in final energy savings. This is far lower than the 1,5% savings that was envisaged every year to be achieved. The outcome of Article 7 must at least triple in order to achieve the necessary energy savings to reach the EU's long-term efficiency targets. In addition to this, exemptions for Member States to achieve their energy efficiency target must be removed, such as excluding the energy used in the transport and ETS sectors from the baseline used for calculating the target and to phase in savings and count savings from before 2014. In view of 2030 targets and the Paris Agreement from December, the annual savings target from 1,5% should be corrected upwards to at least 3% so the EU plays its leadership role in line with global climate and energy action commitment.

Should energy efficiency obligation schemes have specific rules about energy savings amongst vulnerable consumers?

Yes, fuel poverty is a major problem for Europe, as between 50 and 125 million people are unable to afford proper indoor thermal comfort[1]. One concrete step in the Art 7 requirements could be to develop a phase-out plan for subsidizing fossil fuels and redirecting this to energy efficiency programmes in socially vulnerable areas. The EED should provide universally applied and workable definitions and mechanisms to push for dedicated programmes from member states in tackling energy poverty via increased energy efficiency measures. The Commission should help Member States implement Article 7.7.a which states that "Member States may: include requirements with a social aim in the saving obligations." Without specific rules in Art. 7 focusing on energy poverty, most EE projects will go to the building owners who are able to take on additional debt. The sub-national level plays a crucial role to detect and take action upon energy poverty by creating synergies between their social inclusion strategies and sustainable energy programmes. Ghent's retrofitting programme ([REGent](#)), for example, prioritizes deprived neighbourhoods for taking advantage of free energy scans/audits and close to zero interest loans to finance the measures.

What should be the most appropriate financing mechanisms to significantly increase energy efficiency investments in view of the 2030 target?

Appropriate financing sources are available, but not used to increase the EE investments as long as the following elements are not addressed:

1. A long-term stable environment for investments, driven by adequate national targets and Art. 7 requirements.

2. Technical assistance to local and regional authorities increases the bankability of EE projects and supports effort for bundling smaller-scale projects within one municipality and between different municipalities. One possibility is to investigate the added value of the European Investments Advisory Hub.
3. Exemption for public budgets from the ruling from the European System of Accounts for cost-saving investments as EE in order to have EPC projects implemented off-balance (not influencing the debt ratio). EE measures should be seen as operating cost (such as energy costs) instead of capital expenditure, which increases the investment's budget on a public authority's balance sheet.
4. Dedicated credit lines (national) and financing instruments such as (portfolio) guarantees, soft loans, mezzanine debt, green bonds, forfaiting/factoring, on-bill/on-tax financing etc.
5. Channeling the European and national financial support structures (EFSI guarantee, ESIF financial instruments, EIB framework loans, EEEF, ETS revenues) according to the energy efficiency first principle to intermediaries that leverage further private finance participation and facilitating aggregation of local projects bottom-up.

Do you think additional indicators are needed to improve monitoring to assess Member States' progress towards their energy efficiency targets?

Yes.

Indicators on public and private investments in energy efficiency and resulting indicators such as the numbers of jobs created should be added. This would increase the visibility and understanding of the multiple benefits of energy efficiency and how having ambitious targets for energy efficiency can drive these benefits.

In addition to this, local energy efficiency policies, such as in the framework of the Sustainable Energy Action Plans of the Covenant of Mayors, should be considered as additional indicators to improve monitoring to assess Member States' progress towards their energy efficiency targets.

Do you believe that measures on public procurement of energy efficient products, services and buildings should become mandatory also for public bodies at regional and local levels?

Yes,

The current Article 6 evaluates measures on public procurement on the cost-effectiveness, but local and regional authorities would save more money by complete life-cycle-cost assessments, which should become part of the EED legislation. The scope of public procurement rules should be extended to all public authorities to cover all public contracts, and clear and ambitious energy performance levels should be set (including for new and existing buildings). Guidance and financial instruments should be tailored to local and regional authorities (LRAs) in order to facilitate the market take-up, as LRAs are leading by example and are best positioned to convince the market players of the profitability and added value of energy efficiency measures.

In your view, what are the main barriers that preventing the use of energy efficiency requirements in the existing public procurement procedures?

(From a selection)

- There is a lack of awareness about the use of energy efficiency requirements in public procurement
- There is insufficient expertise and/or knowledge on the use of energy efficiency requirements in public procurement
- Incompatibility of energy efficiency requirements with other procurement criteria (sustainable requirements, low price, safety requirements, technical requirements)
- Lack of clarity of the energy efficiency requirements for public procurement

Since public authorities often work on the basis of annual budgets, public authorities tend to look at expenses during the current year, instead of life cycle costs spread over many years. Public authorities are often not aware of the life cycle approach and do not understand what it means for a particular public contract (energy-using products, buildings, etc.). They also lack energy managers who are able to conclude energy-efficiency services contracts. Local authorities from smaller and medium sizes would therefore benefit heavily from capacity-building efforts (via e.g. coordination and support action of H2020, information campaigns, etc.) to understand the complete cost-benefit analysis of energy efficiency. Finally, the split tendering prescribed by the Public Procurement Directive is a burden to overall energy-efficiency services contracts in the public sector.

While energy efficient products will be cheaper to operate, their initial cost might be higher and a longer period of time will be needed to "pay back" this higher cost. Is this a problem and if so, how can public authorities overcome it?

Yes, this is a problem, the high up-front investments will significantly impact the balance sheet for the first year of the investment, without any 'neutralizing factor' of the operating cost savings afterwards. Consideration may be given to whether annual energy savings could be accounted for as income in public budgets during the lifetime of the investment. In order to cover better the high up-front investment needs, it is very important for many local and regional authorities to bundle several purchases, performance services to lower transaction costs and reach more easily 'economies of scale'. Especially when targeting higher ambitious efficiency levels than at market conditions with feasible payback times within a legislative period.

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ABOUT [Climate Alliance](#)

"Climate Alliance of European Cities with the Indigenous Rainforest Peoples" is the largest city network committed to climate protection and preservation of the tropical rainforests. Since 1990, Climate Alliance has supported a total of now almost 1,700 members from 24 European countries in attainment of their voluntary commitments to reduce CO₂ emissions by ten percent every five years and to halve per capita emissions by 2030 at the latest (base year 1990).