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Ms Kadri Simson
European Commissioner for Energy
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08 July 2021

Dear Commissioner Simson,

SUBJECT: The need to broaden the Energy Efficiency Directive (“EED”) and Energy Performance of Buildings Directive (“EPBD”), with a stronger focus on private sector financing.

Funding for Future B.V.’s (“F3”) welcomes the strong push for “the EE First -Principle”, including the recent initiative to seek public consultation on the Energy Efficiency Directive (“EED”) and Energy Performance of Buildings Directive (“EPBD”). F3 delivers a financial instrument to maximise long term savings through an Integrated Home Renovation Service model (deep renovation) of multi-family buildings across the EU. Comforted by our dialogue with local partners working in a cross-section of EU countries, we share below feedback on the EED and EPBD to reiterate the importance of public-private investment partnerships to achieve the Green Deal objectives and offer recommendations. We summarise below the request for deeper integration, long-term (20-30 years) renovation of residential buildings, the link to financial instruments, and a possible role of utilities in a low energy consumption future.

I. EED & EPBD

1. Limited focus on residential buildings

While the residential buildings sector is responsible for 24% of energy consumption in the EU, the best practice of building renovation in this sector presents a demonstration effect for decarbonising buildings in the commercial, public, and industry sectors. Analysis of Long-Term Renovation Strategies¹ by EU members highlights that the residential sector would have to undergo the highest reduction in energy demand for heating and cooling, ranging between 19%

¹ European Commission. (2021). “Preliminary analysis of the long-term renovation strategies of 13 Member States”. Retrieved from: https://ec.europa.eu/energy/sites/default/files/swd_commission_preliminary_analysis_of_member_state_lrss.pdf

to 23%². However, the potential decline in energy demand is overestimated due to the optimistic assessment of deep renovation of buildings estimated to be 0.2% per annum on average unless we scale up our efforts drastically.

The regulatory framework must **address the need for renovation both for public and residential buildings**. It encourages the Member States “in supporting public sector” by taking up energy service offers, particularly for building refurbishment by providing model contracts for energy performance contracting (Article 18, point 1 (d) of the EED)³. However, no reference is made to the residential sector. The framework targets a 3% annual renovation target of total floor area for public buildings (Article 5, point 1 of the EED). But, again, no target is set for residential buildings.

Recent Renovation Wave communication⁴ highlights the importance of “tackling energy poverty and worst-performing buildings” and refers to “public buildings and social infrastructure showing the way”. **Tangible regulatory focus on the residential sector would address Energy poverty**. “Adequate warmth, cooling, lighting and the energy to power appliances” are essential services needed to guarantee a decent standard of living and protect citizens’ health. While access to these energy services will empower European citizens to fulfil their potential, existing business models across the building sector continue to block progress.

2. Comprehensive benefits of building renovation

The benefits of building renovation go beyond energy savings. Analysis of **LTRS shows that all member states except Spain and Sweden lack elaboration of the “wider benefits of renovation”**. The regulatory framework needs to address the broader economic, social, and environmental benefits of building renovation, especially in the residential sector. Our experience shows that people are equally concerned about their indoor climate and comfort as much as energy efficiency. As importantly, the prudent person principle requires that the investment be made based on the asset’s quality as a whole. Is it surprising that financial institutions have been reluctant to participate?

Energy savings can strengthen Europe’s building stock and provide owners with long term “Safety, Health and Comfort”™.

3. Others

Additional clarification in some parts of the regulatory framework can increase effectiveness and reduce ambiguity. High-level guidance on “measures for behavioural change” (Article 5, point 6 of the EED) can involve various ways of communicating the energy consumption with end-users to encourage behaviour change⁵. Knowledge transfer to **citizens** is crucial to avoid information asymmetry in the building renovation process. Reference values of energy performance certificates should enable owners or tenants of buildings to compare and assess energy performance (Article 11, point 1 of the EPBD). **Gender-blind regulations** are limited as neither the EED nor the EPBD mention the word “gender”. However, both are intended to address **energy poverty, a social phenomenon that cannot be gender blind**. Women earn

² European Commission. (2021). op.cit. p.3

³ European Commission. (2012). Directive on Energy Efficiency. Document 02012L0027-20190612. Article 18, point 1(d). Retrieved from <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02012L0027-20190612>

⁴ European Commission. (2020). A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives. p.20 https://ec.europa.eu/energy/sites/ener/files/eu_renovation_wave_strategy.pdf

⁵ European Regional Development Fund. (2018). A Policy Brief from the Policy Learning Platform on Low-carbon economy. p.7-8: <https://www.buildup.eu/sites/default/files/content/untitled-192854-ea.pdf>

14.1% less per hour in the EU than men⁶, whilst the **share of energy cost per income is among the primary indicators of energy poverty**. The need to improve gender-energy poverty nexus has already been proposed by several reports, including “The Housing Partnership Action Plan”⁷ and “Gender perspective on access to energy in the EU”⁸. Effective policy development should consider the vulnerable groups of the society, such as the elderly and single-parent families, among others.

II. Building Energy Efficiency Facility “BEEF” – an example of a financial instrument

F3 finances solely deep renovation of multi-family and public buildings across Europe through standard documentation, processes, and targets. Due to the growing buildings crisis, increasing energy poverty and urgent necessity to tackle climate change, a **privately financed Integrated Home Renovation Service (IHRS) model** named “Building Energy Efficiency Facility or BEEF” was created in 2014. Under the model, a standalone investment vehicle is made, where standardised Investment Policy Guidelines outline all technical, financial & legal requirements to finance dEEp renovation services. Owners “subscribe” to the service through an on-bill repayment mechanism. The economic structure of BEEF IHRS incorporates the main principles of Financial Regulation, including Economy, Efficiency and Effectiveness⁹. Lastly, but not least, the model provides “**Safety, Health and Comfort- guaranteed**”[™] and, therefore, fit-for-purpose buildings for generations to come.

The investment vehicle (“LABEEF”) was established in Latvia. F3 secured loans from the European Bank for Reconstruction and Development as well as 3rd party investors. F3 works with local partners to promote the BEEF IHRS in several EU countries, including Poland, Spain, Austria, and Bulgaria. The facility was praised for best practice example for private finance mechanism for sustainable finance by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU)¹⁰ in Germany. The methodology was recently referred to in the Fi-compass brochure issued by the EIB Advisory Hub¹¹.

1. Building renovation suffers from an investment market gap.

The EU Commission estimates that Green Deal objectives require 185bn Euro of investment per year, EUR 115bn in the residential sector. Therefore, support for private sector initiatives is crucial to deliver on the EU’s long-term objective of a climate-neutral economy by 2050. Only

⁶ Women's gross hourly earnings 14.1% below those of men:

<https://ec.europa.eu/eurostat/web/products-eurostat-news/-/edn-20210308-2>

⁷ The Housing Partnership ACTION PLAN, December 2018:

https://ec.europa.eu/futurium/en/system/files/ged/final_action_plan_euua_housing_partnership_december_2018_1.pdf

⁸ Gender perspective on access to energy in the EU, 2017:

[https://www.europarl.europa.eu/RegData/etudes/STUD/2017/596816/IPOL_STU\(2017\)596816_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2017/596816/IPOL_STU(2017)596816_EN.pdf)

⁹ European Court of Auditors. (2020). “Energy efficiency in buildings: greater focus on cost-effectiveness still needed”. p.44. Retrieved from <https://op.europa.eu/webpub/eca/special-reports/energy-efficiency-11-2020/en>

¹⁰ Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU). (2018). LABEEF in Latvia. Fact sheet. Retrieved from <https://www.euki.de/wp-content/uploads/2018/12/Fact-Sheet-LABEEF-Latvian-Energy-Efficiency-Facility-LV.pdf>

¹¹ European Investment Bank. (2019). “Financing EPC for the public sector”. Retrieved from

<https://www.ca-eed.eu/content/download/8300/file/Financing%20EPC%20for%20the%20public%20sector%20-%20Dinis%20Rodrigues.pdf/attachment>

through standardised and transparent financial mechanisms necessary to attract private investment capital can countries deliver on their energy efficiency targets. Furthermore, deep renovation of buildings presents unique investment opportunities for pension funds and insurance companies. Therefore, attracting private capital at scale is an essential element in the design of BEEF. **The model is a tool to achieve holistic renovation at scale whilst making investments and services affordable to all households.**

2. The need to meet actual demand: Energy Performance Contracting Plus (EPC+)

The BEEF IHRS model includes a 20-30 year standardised Energy Performance Contract Plus (“EPC+”) tailored for **the residential sector**; it is the equivalent of a subscription agreement. Analysis by several H2020 projects shows complete harmonisation of the contract across several EU member states is possible¹². In addition, the documentation includes standard and transparent measurement & verification protocols. It may seem obvious as these will ensure buildings’ lives and long-term sustainable returns for all stakeholders.

3. Role of Digital Technology

The BEEF IHRS model is managed through an **online platform. The platform acts as an aggregator of stakeholders and ensures that the entire process from engagement through to financing and renovation and then measurement & verification is cost-effective.**

III. Public and private investment partnership

The role of **private sector financing is crucial to achieve renovation at scale and make a tangible impact.** Our discussions with core stakeholders across 12 countries in Europe (from Germany/France to Bulgaria/Croatia)- market operators and municipalities would welcome longer tenors and sustainable investments with greater accountability. They argue that private sector investment can complement public spending in providing accountability, transparency, and efficiency for building renovation but is not available. Incentives to combine private and public capital should be encouraged at scale (Article 17, 1, 2 and 4 of the EED). The European Court of Auditors published in April 2020 highlights severe shortcomings in using subsidies for building renovation¹³ under European structured funds for EE. Investors in building renovation require a robust regulatory framework to support the market at scale. The current “same old, same old” scenario most national authorities seem intent to pursue will not increase renovation rates and will not address the urgent need to decrease our building stock’s carbon footprint efficiently. We urge the Commission to persist in linking subsidies to financial instruments open to private investors.

National Authorities have transposed EU Directives for Energy Efficiency to have minimal impact on national utilities’ income (or their suppliers). **As a result, regulatory and market mechanisms for stimulating energy efficiency have resulted in “low hanging” measures with little or no monitoring results.**

These mechanisms block long term investments. Further, the EU’s estimates of needed investment are too low based on minimal Energy Efficiency measures. To be efficient, owners must engage in **holistic renovations. These investments will allow services providers to guarantee a building fit for purpose on a life cycle basis.** Simultaneously, at scale, deep

¹² <https://fineergodom.eu/>

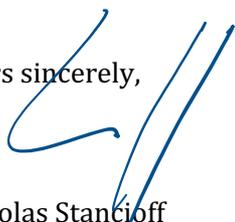
¹³ European Court of Auditors. (2020). op.cit. p.34, 45. Retrieved from <https://op.europa.eu/webpub/eca/lr-energy-and-climate/en/>

renovations would undermine the financial stability of our utilities. Imagine an 80% decrease in primary consumption for the DH in Eastern Europe. Today, over 50% energy reduction can be achieved when commonly held belief is less than 35%! **For the Renovation Wave to be more than a ripple, more vigorous policies are required.**

The regulatory framework must simultaneously strengthen utilities, truly encourage private capital while promoting an acceleration of decarbonisation. For example, utilities must profit from metered efficiency gains made in buildings. F3 has explored financing a pilot structure where utilities can purchase the metered energy efficiency units from developers and sell them to the customer under the BEEF structure. In short, the utility is selling fewer grid-based energy units and replacing them with efficiency units, with a minimal impact on turnover and additional revenue from energy services. The role of utilities as aggregators of community energy demand will work just as well for “negawatts” as it always has for kilowatts. Supported by long-term funding on-bill to consumers, utilities can utilise the cash flows on investments, jobs, business growth, healthier and more valuable buildings, and a cleaner and more stable environment.

From the outset, we convinced EBRD that the BEEF model could act as a catalyst for private sector investment to support building renovation at scale. The Horizon 2020 SUNShINE project¹⁴ funded our success and allowed us to understand regulatory barriers and the reasons for resistance to change. As a result, we conclude that utilities are part of the solution and not the intractable problem. But what the SUNShINE project also highlighted is the strong resistance to change of stakeholders. Stakeholders perceive concrete results in EE (near Zero is affordable at scale) **as disruptive to their existing business models. In addition, new financial instruments and institutional investment require rapid transposition and enforcement of both the EED and the EPBD. These will ensure more substantial regulatory changes at a national level, and a realignment of subsidies and grant mechanisms over 5-10 years. All of which will require sustained political support.** It is our contention that success in the housing sector and more broadly in urban infrastructure will “spread” to the other sectors of our industry as households become familiar with the benefits of energy saving.

Yours sincerely,



Nicholas Stanciuff
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Funding for Future B.V.

Cc: First Vice-President Dumbrovskis c/o Mrs Melngailis
Signed electronically with E-Paraksts

¹⁴ SUNSHINE. (2021, May 31). Retrieved from <https://www.h2020sunshine.eu>