European Commission

2014-2020 Cohesion Policy Support for Energy Efficiency investments

JASPERS Networking Platform Workshop: Energy Efficiency measures for the 2014-2020 programming period Brussels, 9 April 2014

Maud SKÄRINGER
Policy Analyst
European Commission
Directorate-General for Regional and Urban Policy

Regional Policy

Overall context for Cohesion Policy investments in Energy Efficiency 2014-2020

European Commission

Cohesion Policy 2014-2020 – Sustainable Energy

- **ERDF and CF** to allocate some 27 billion € (estimate!) to investments in **energy efficiency and renewable energy, smart distribution grids and sustainable urban mobility**, including **research and innovation** (only ERDF) in those areas in **complementarity with Horizon 2020**.

- **ERDF** support also, mainly in less developed regions, to remove bottlenecks in key network infrastructures, including **smart distribution, storage and transmission systems**, in **complementarity with the Connecting Europe Facility**.

- **ESF** support to ensure that people can adapt, through **acquiring appropriate skills** and through **lifelong learning opportunities**, to new challenges such as the **transition to a low-carbon and more energy-efficient economy**.

Investments in Energy Efficiency in 2014-2020 Cohesion Policy

TO 4 – Shift to a low-carbon economy – Investment priorities most relevant for energy efficiency measures:

- Promoting energy efficiency (EE) and renewable energy (RES) use in enterprises
- Supporting EE, smart energy management and RES use in public infrastructures, including in public buildings, and in the housing sector
- Promoting research and innovation in and adoption of low-carbon technologies (ERDF only)

Why focus Cohesion Policy support on Sustainable Energy in Buildings?

A WIN-WIN-WIN OPPORTUNITY:

Regional Development/Social Cohesion/Energy Savings

- Creating new and sustainable jobs;
- Building local and regional capacities;
- Creating local opportunities for R&D and innovation;
- Lowering energy consumption and improving security of energy supply;
- Reducing energy costs and alleviating energy poverty (in the case of residential buildings);
- Improving the quality of residential/public/commercial buildings;
- Reducing greenhouse gas emissions and improving the local environment.

Implementation principles for Cohesion Policy Energy Efficiency investments

- Ensure that **public funding complements private investments**, leveraging it and not crowding it out
- Consider creating value for energy savings through **market mechanisms** before public funding (energy saving obligations, energy service companies (ESCOs)…)
- **Financial instruments** to be used where potential for private revenue or cost savings is sufficient
- **Grants** to be used **primarily for social objectives, to support innovative technologies and investments going beyond minimum energy requirements**, thus making sure that energy savings and GHG emission reductions are above those with "business as usual"

European
Commission

Common indicators – Low carbon economy

- Additional capacity of renewable energy production (MW)
- Number of households with improved energy consumtion classification
- Decrease of primary energy consumption of public buildings (kWh/year)
- Number of additional energy users connected to smart grids
- Estimated annual decrease of GHG (tonnes of CO_2 equivalents)

Ex ante conditionality for investments in supporting EE, smart energy management and RES use in public infrastructures, including in public buildings, and in the housing sector

European Commission

Ex-ante conditionality 4.1

- Actions have been carried out to promote cost-effective improvements of energy end use efficiency and cost-effective investment in energy efficiency when constructing or renovating buildings.

Criteria for fulfilment:

The actions are:

- Measures to ensure minimum requirements are in place related to the energy performance of buildings consistent with Art. 3, 4 and 5 of Directive 2010/31/EU.
- Measures necessary to establish a system of certification of the energy performance of buildings consistent with Art. 11 of Directive 2010/31/EU.
- Measures to ensure strategic planning on energy efficiency, consistent with Art. 3 of Directive 2012/27/EU
- Measures consistent with Art. 13 of Directive 2006/32/EC to ensure the provision to final customers of individual meters in so far as it is technically possible, financially reasonable and proportionate in relation to the potential energy savings.

Financial Instruments 2014-2020

Financial Instruments (FIs) 2007-2013: Where we are (end of 2012)

- Scope (SMEs, urban regeneration, EE/RES - since 2009 up to 4% of national ERDF allocations also in existing housing to support social cohesion)
- 25 Member States – 8 for EE/RES (BG, CZ, DK, EE, EL, IT, NL, UK)
- €12.5 billion of programme funding through FIs – €444 million for EE/RES
- €8.3 billion Structural Funds - €300 million for EE/RES
- 870 specific funds – 16 for EE/RES = 2%
- €4.7 billion of programme contributions disbursed to final recipients - €90 million for EE/RES = 13,392 loans

Financial instruments 2014-2020

Wider scope:

- Common provisions cover all five Funds: ERDF, ESF, Cohesion Fund, EAFRD and EMFF
- Expansion to all thematic objectives & priorities foreseen by OPs
- Support investments expected to be financially viable which do not give rise to sufficient funding from market sources

Ex-ante assessment:

- Must be carried out prior to decision to support financial instruments, including:
  - rationale/additionality against existing market gaps and demand/supply
  - value added, potential additional public and private sector involvement
  - target final recipients, products and indicators

European Commission

Financial instruments 2014-2020

More implementation options for managing authorities (MAs):

➲ **Traditional implementation**: MA sets up a FI at national, regional, transnational or cross-border level:

- Tailor-made instruments (cf 2007-2013)
- Standardised “off-the-shelf” instruments , quick roll-out

➲ **MA can contribute OP allocations to EU level instrument (COSME, Horizon, "SME Initiative")**

➲ **MA can implement loans or guarantees directly (or through intermediate body) without formal set-up of a fund**

Financial instruments 2014-2020: "Off-the-shelf"

Objectives

- Help managing authorities to deliver faster and safer financial means to the final recipients
- Alignment and complementarity with the EU level instruments (no overlapping but complementary)
- Combining public and private resources, seek for leverage EU (and/or public) contributions
- Switch from grant dependency to a more sustainable way of project finance

Financial instruments 2014-2020: "Off-the-shelf"

Principles

- Not mandatory
- Managing authority can decide either to select directly financial intermediaries or to pass OP contribution through a public fund of funds
- Pre-defined but still flexible: keep adaptability to the needs of various type of regions
- Focus on the most commonly used type of instruments
- Compatibility with state aid rules (no need for notifications)
- Implementation of the instruments according to market practice
- Grant for technical support up to 5% of the ESIF contribution

European Commission

Financial instruments 2014-2020: "Off-the-shelf"

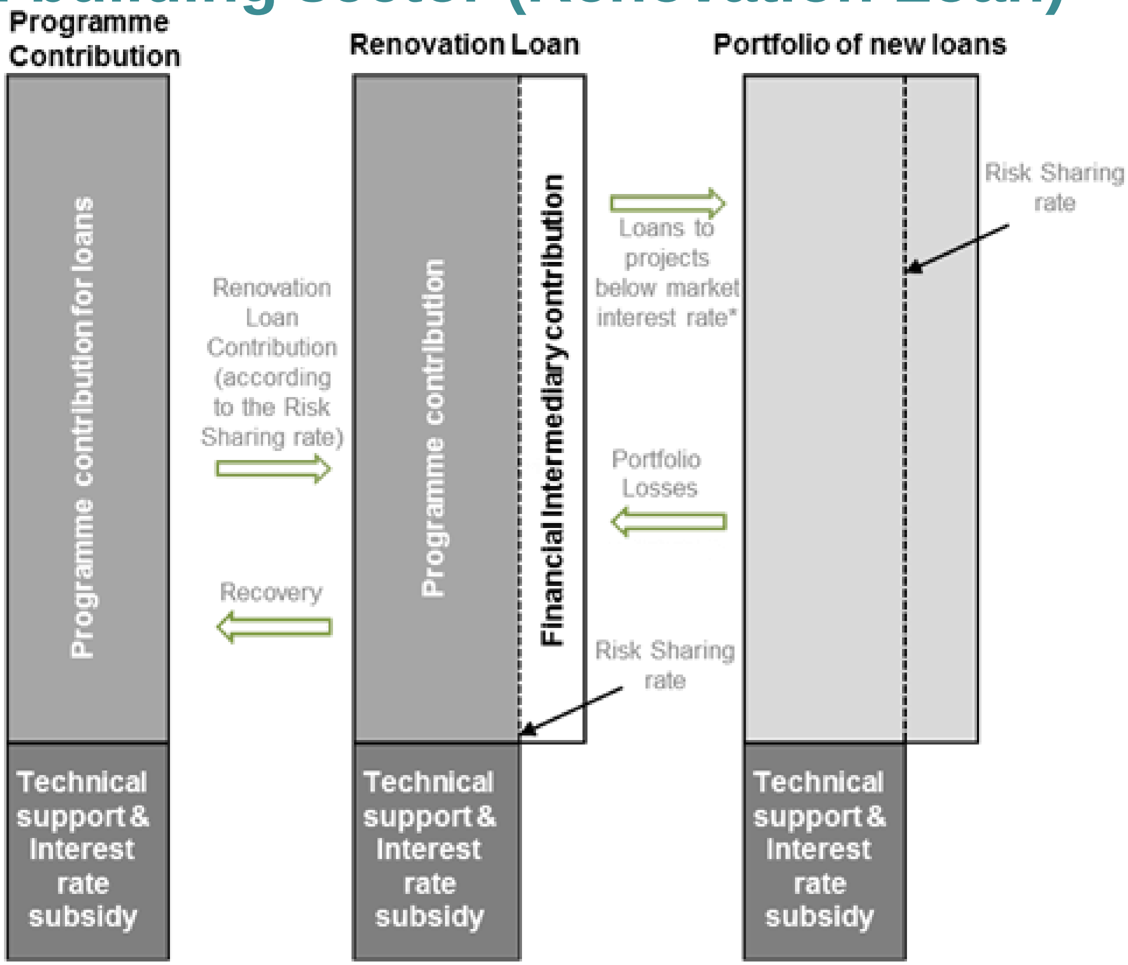
Three for SMEs

1. Loan for SMEs based on a portfolio risk sharing loan model (Risk Sharing Loan)
2. Guarantee for SMEs (partial first loss portfolio, capped guarantee)
3. Equity fund for SMEs and start-up companies based on a co-investment model (*in progress*)

One for energy efficiency/renewable energies and one for urban development

4. Renovation Loan based on a Risk Sharing loan model (RS Loan)
5. Urban Development Fund (*in progress*)

Loan for energy efficiency and renewable energies in the residential building sector (Renovation Loan)



* Full benefit of interest rate is passed to house owners

Renovation Loan:

- Aim of the instrument: **Combining public and private resources** to finance natural persons owning premises / private owners at preferential conditions to invest in renewable or efficiency energy assets
- Risk-sharing: **85%/15%**, i.e. the financial intermediary shall contribute with its own private fund for a minimum of 15% (at market conditions)
- State aid:
  - **State-aid free at the level of the financial intermediary**
  - Compliant with **de minimis** rule at the level of owners with economic activities
- Purpose of the loan: energy efficiency or renewable measures (e.g. replacement or refitting of the heating, Improvement of heat insulation, replacement of windows and entrance doors, roof insulation, etc.
- Target: Natural, legal persons or independent professionals (economic activity), as well as administrators or other legal bodies acting on behalf and for the benefit of owners, owning premises (**apartment or individual household**), social housing companies, etc.
- Loan maturity: **Up to 20 years** (including grace period)
- Loan amount: **Up to EUR 75.000 / owner**
- Advantage for the owners: access to finance at **preferential conditions** (interest rate and collateral reductions)

European Commission

Research and Innovation and Smart Specialisation Strategies

Research and Innovation

- **Research and innovation** (R&I) in low-carbon technologies / sustainable energy is key to **achieving the EU climate and energy targets for 2020** and also the **target for 2050 of a 85-90% reduction in CO_2 emissions**.
- R&I in these areas also entails important **opportunities for regional development**. The objective of Cohesion Policy is to improve the regional economy in terms of **competitiveness, growth and jobs**. Therefore, it can only support research projects contributing to this objective. It cannot support projects for "purely" scientific purposes.

European Commission

Research and Innovation

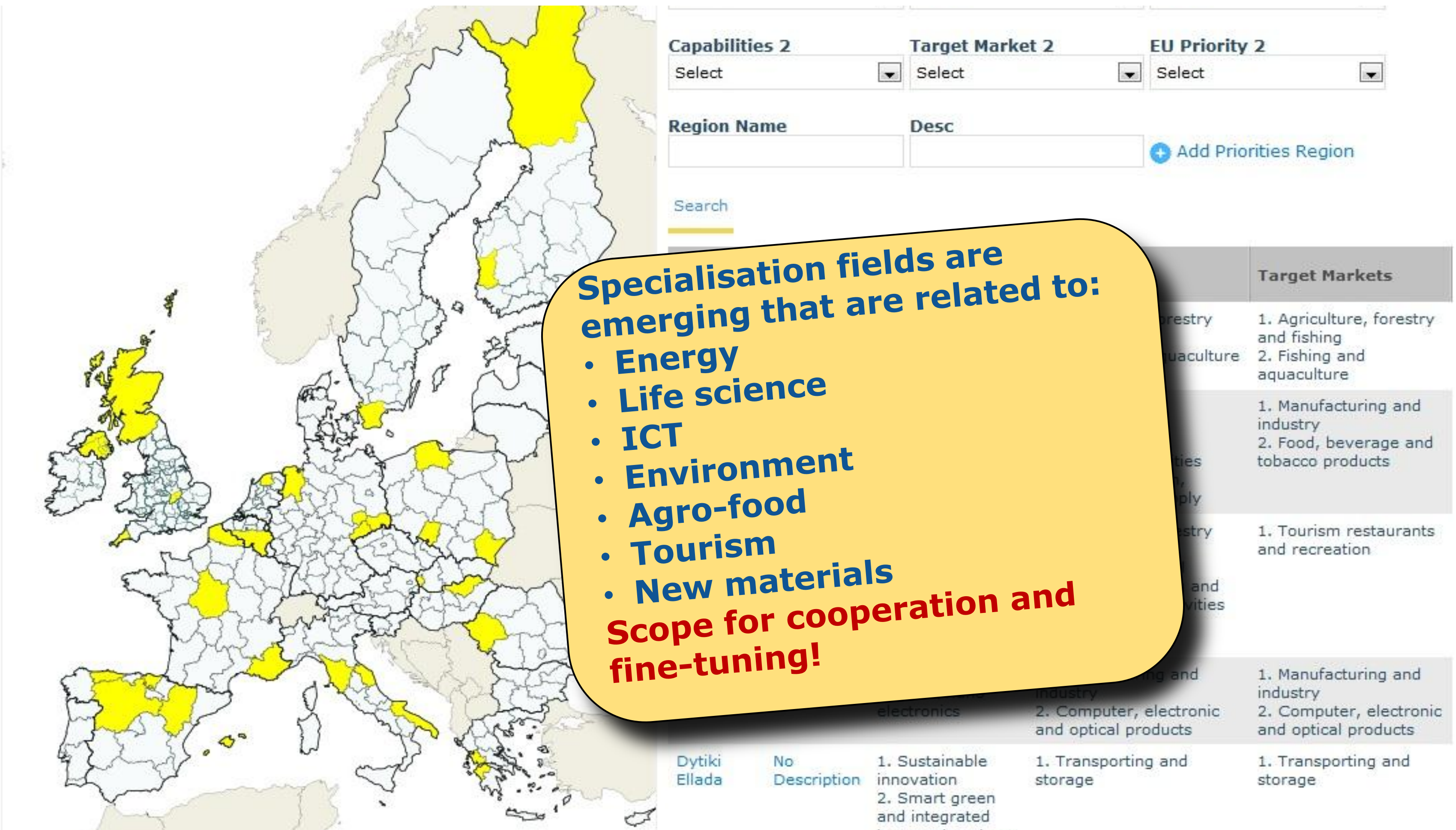
- In assessing their position and assets in the context of the development and implementation of their smart specialisation strategies, **Member States and regions are invited to make full use of the knowledge developed in the framework of the SET Plan**
- In concrete terms, **include SET Plan / Smart Cities / Horizon 2020 actors in the strategy development:**
  - SET Plan Steering Group members, members of Horizon 2020 programme committee, researchers, EIT KIC InnoEnergy, European Energy Research Alliance, PPP on Energy-efficient Buildings, SPIRE PPP, other PPTs, JTIs, JUs, ETPs, EIPs, Marie Curie centres, research institutions with success in FP7, EUREKA …), … , and consult international networks (research AND business networks)

Research and Innovation

- Public authorities expected to take an exemplary role, e.g. in engaging in state-of-the-art renovation of public buildings for improved energy efficiency (demand side).
- In doing so, they are invited to build on results from research projects under the Energy-efficient Buildings (EeB) PPP and other relevant EU level and national research.
- A certain number of regions can be expected to decide that they will focus Cohesion Policy resources for RTDI in the area of EE of buildings.

Check out the smart specialisations:

RIS3 mapping of regions' and MS intentions in terms of smart specialisation fields allows to detect possible partners:



Specialisation fields are emerging that are related to:

- **Energy**
- **Life science**
- **ICT**
- **Environment**
- **Agro-food**
- **Tourism**
- **New materials**

Scope for cooperation and fine-tuning!

See: http://s3platform.jrc.ec.europa.eu/eye-ris3;jsessionid=87skR80JmqXZLlWhxL8ZvyH9XYkGRTg62i2k1YVkctXQR0tRyWgQ!1058177620!1362916436845

European Court of Auditors' (ECA) Special Report 21/2012: Cost-effectiveness of Cohesion Policy Investments in Energy Efficiency

ECA Special Report 21/2012: Cost-effectiveness of Cohesion Policy Investments in Energy Efficiency (1)

ECA Main conclusions:

- **Right conditions in programming and financing had not been set**
  - No needs assessment in OPs
  - Cost-effectiveness concept not used for allocating funding to measures and projects
  - Performance indicators not appropriate
- **Audited energy efficiency projects in public buildings were not cost-effective**
  - Projects did not generate a good ratio between energy savings and corresponding investment cost
  - Energy audits not mandatory or not appropriate

ECA Special Report 21/2012: Cost-effectiveness of Cohesion Policy Investments in Energy Efficiency (2)

ECA Main recommendations:

- **Cohesion policy funding for energy efficiency measures should be subject to:**
  - **Needs assessment at programme level**, assessing energy consumption by end-use in all sectors and identifying the economy's energy savings potential
  - **Regular monitoring and use of comparable performance indicators**; identification of contribution of cohesion policy funds to 20% energy savings target
  - **Use of transparent project selection criteria and standard investment costs per unit of energy saved**; Commission should set maximum acceptable simple payback period

ECA Special Report 21/2012: Cost-effectiveness of Cohesion Policy Investments in Energy Efficiency (3)

Commission reply:

- PAs shall include an analysis of disparities, **development needs** and growth potential with reference to the TOs and the territorial challenges and all programmes should be in line with the PA.
- The **long-term strategy for mobilising investment in the renovation of the national building stock**, including policies and measures to stimulate cost-effective deep renovations, will also be a **useful basis for needs assessment** and planning.

ECA Special Report 21/2012: Cost-effectiveness of Cohesion Policy Investments in Energy Efficiency (4)

Commission reply:

- However, Cohesion Policy is an **integrated and place-based policy**, and EE is only one of multiple objectives.
- It is important to take an **integrated approach** and not carry out EE improvements in isolation. They should be rather considered as part of a general refurbishment leading to the overall improvement of a particular building. It makes clear sense to carry out other improvements of a building at the same time as doing EE improvements. This typically also results in **more cost-effective projects overall**.

European Commission

ECA Special Report 21/2012: Cost-effectiveness of Cohesion Policy Investments in Energy Efficiency (5)

Commission reply:

- An **integrated approach** means that buildings in a particular neighbourhood might be selected for renovation as part of an overall integrated plan for urban regeneration. Or that if a particular public building is up for renovation at a specific point in time for whatever reason, it makes sense to also address the EE aspects in the same round of refurbishment work.
- The buildings where Cohesion Policy EE investments will be made will thus **not be selected on the basis of their EE improvement potential only**.

ECA Special Report 21/2012: Cost-effectiveness of Cohesion Policy Investments in Energy Efficiency (6)

Commission reply:

- Changes for 2014-2020 will contribute to the **improvement of programme performance**.
- The Regulations envisage three **common indicators** for EE for all MS, thus making an aggregation at EU level possible. But it will not be possible to aggregate the total contribution to 20% target (kWh saved only in public buildings). Also, the comparability of the indicators will be limited, given the fact that these indicators depend on many factors (e.g. energy/commodity prices, climate conditions) that could render them misleading.

European Commission

ECA Special Report 21/2012: Cost-effectiveness of Cohesion Policy Investments in Energy Efficiency (7)

Commission reply:

- The **focus on a simple payback period is not appropriate**. Setting standard investment costs per kWh saved across the EU is not possible, as these costs differ considerably, e.g. due to different prices for equipment, different climate conditions, different types of buildings or different levels of already implemented savings. EE investments in public buildings may also be part of "deep renovation" works entailing longer payback times.
- The Commission has developed **technical guidance**, which could serve as a basis for setting up project evaluation, monitoring and verification mechanisms. The Energy Efficiency Directive requires MS to promote the availability of high quality **energy audits** to all final customers.

More information

Cohesion Policy Project Examples:

http://ec.europa.eu/regional_policy/indexes/project_examples_en.cfm

Thematic Guidance on Cohesion Policy investments in the shift towards a low-carbon economy:

http://ec.europa.eu/regional_policy/information/guidelines/index_en.cfm#7

Financing the energy renovation of buildings with Cohesion Policy funding – Technical Guidance

http://ec.europa.eu/regional_policy/information/brochures/index_en.cfm#5

Expert Evaluation Network reports on renewable energy and energy efficiency in housing:

http://ec.europa.eu/regional_policy/information/evaluations/index_en.cfm#1

Practical Guide to EU funding opportunities for Research and Innovation:

http://cordis.europa.eu/eu-funding-guide/home_en.html

Smart Specialisation Platform:

http://s3platform.jrc.ec.europa.eu/home

Guide "Connecting Smart and Sustainable Growth through Smart Specialisation":

http://s3platform.jrc.ec.europa.eu/documents/10157/0/greengrowth.pdf

Commission Staff Working Document – Financial Instruments in Cohesion Policy:

http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/financial/financial_instruments_2012_en.pdf

Guidance on Financial Instruments in Cohesion Policy 2014-2020:

http://ec.europa.eu/regional_policy/information/guidelines/index_en.cfm#3

Panorama Autumn 2012: Using financial instruments to leverage support for regional policy:

http://ec.europa.eu/regional_policy/sources/docgener/panorama/pdf/mag43/mag43_en.pdf

Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period:

http://ec.europa.eu/regional_policy/thefunds/instruments/doc/fls_stocktaking_final.pdf

JESSICA horizontal (thematic) studies:

http://ec.europa.eu/regional_policy/thefunds/instruments/jessica_horizontal_en.cfm

Intelligent Energy Europe Projects:

http://eaci-projects.eu/iee/page/Page.jsp

For info or further questions on this presentation, or on the activities of the JASPERS Networking Platform please contact:

Massimo Marra
JASPERS Networking Platform Officer
ph: +352 4379 85007
m.marra@eib.org

www.jaspersnetwork.org

jaspersnetwork@eib.org