

## **Housing Europe response to the open consultation on the Energy Performance of Buildings Directive (EPBD)**

### **A. October 2015 Overall Assessment**

#### ***Our members' experience***

**The experience of Housing Europe is the following (based on the findings of the Nearly Zero Energy Challenge project and regular feedback from members during our Working Committee on energy):** yes, a green building revolution is under way in the EU thanks to the professionalism of the Public, Cooperative and Social Housing sector, the involvement of all relevant stakeholders including tenants and residents and driven by already ambitious legislation on nearly-Zero Energy Buildings; but no, this revolution cannot take place everywhere at the same speed and the EU must continue to support a pragmatic and differentiated approach to a fair energy transition in the housing sector.

The objectives and obligations of the EPBD has been integrated in the practices and business model of providers of social, public and cooperative housing in order to reach a high and affordable level of comfort for the residents. It is not possible to say that the EPBD has been the main driver of the investment in improving energy performance of the EU building stock, since the decision to renovate a building is driven by many other factors (available technologies and finance for instance).

The flexibility in the definition of the nearly zero energy buildings has enabled member states to propose different frameworks adapted to different situations (climate, etc.) However more needs to be done in terms of consideration of the actual energy savings and cost of investments when determining the level of cost optimality of the investments (see below).

#### ***What's still needed?***

1. Empowering and involving citizen-consumers and communities will be key to unlocking the full potential of every green energy transition strategy
  - Role of local partnerships with energy companies, construction sector, housing providers, tenants proposing adequate strategies
  - Improve the ability of tenants to use their homes the best way possible
  
2. Adequate finance for energy efficiency: strengthen conventional and alternative ways to provide long-term low-cost capital financing for the renovation of social housing

3. New energy market design: housing becoming part of the energy grid and Housing associations becoming energy providers; better, more effective combination/mix of RES and Energy Efficiency policies should be a priority
  
4. Enabling EU legislation: make the EPBD and EED instruments to support local partnerships using cost effective measures

## **B. Facilitating enforcement and compliance**

### ***Our members' experience***

The final achievable level of retrofit varies widely across the models discussed. Some of the most successful models – KredEx and KfW for example – offer a sliding scale of grant or subsidy which is linked to the final energy performance level achieved. In new housing projects, both for very low energy buildings and passive houses, extra costs of construction for additional insulation and ventilation with heat exchange account for a total of 6.7% for small buildings and 9.7% for large (compact) buildings, and cannot be compensated by energy savings in the long run. Between Very low energy vs. Passive buildings differences in consumption are very small; we should take cost implications into consideration when defining the optimal level of nearly Zero Energy Buildings. Measuring actual savings rather than predicted savings may be an important factor in the overall success of a scheme. The need for flexibility for Member States to meet the goals in different ways while ensuring affordability is vital.

Some parameters used to calculate cost-optimal levels are not easy to predict (future primary energy factors, cost development, price trends, performance of new technologies). There are some competition factors between different technical components of energy efficient buildings: insulation vs. heating and ventilation technologies vs. renewable systems (heat pumps, solar plants, PV); the calibration between these components is challenging and definitely not only subject to expert calculations but also a matter of competition between different stakeholders in the energy services sector including energy providers.

### ***What's still needed?***

- Better recognition of the role of renewable in the overall energy performance of the building: the Directive states that the nearly zero or very low amount of energy required should be covered to a very significant extent by energy from renewable sources, including energy from renewable sources produced on-site or nearby.

Experience on the ground show that it is not yet common practice. Incentives should be put in place to allow it.

- Improved 'cost-optimal methodology' (which calculates the energy performance level which leads to the lowest cost during the estimates economic lifecycle)

When a new building is built or when a building undergoes a major renovation, make sure that monitoring and verification of energy performance requirements is done in a standardized way, and that the construction company and the property owner has an energy performance contract with penalties if the building do not deliver the contracted energy performance.

### **C. Energy Performance Certificates (EPCs) and stimulating energy efficient renovation of the building stock**

#### **Our members' experience**

- EPC:

The Energy Performance Certificates (EPC) are an instrument that helps driving the demand and supply of energy investments, however the EPC is not the main criterion to carry out the energy efficient programmes and in some countries it is rather the cost optimality which leads.

As an example of role played by the EPC, the Netherlands that have a system based on an agreement related to the EPC between the landlord and the tenants (the Dutch energy covenant) which allows making energy refurbishment in social housing sector while maintaining the affordability of living.

- Stimulation of renovation:

Regarding the stimulation of the renovation of the building stock, NZEB targets are ambitious, which means a challenge but also an opportunity for Europe.

Housing Europe considers that the right approach is to focus on financing energy efficiency investments rather than strengthening energy performance standards: studies from housing providers (see for instance Austria <http://www.gbv.at/document/view/4345> or Germany [http://web.gdw.de/uploads/GdW\\_Position\\_Energieprognose.pdf](http://web.gdw.de/uploads/GdW_Position_Energieprognose.pdf)) show that the current regulatory framework if accompanied by financial measures, would already allow an increase of the rate of refurbishment. On the contrary any

increase of the energy performance standards alone, in particular beyond the cost-optimal level, would decrease the profitability of energy efficiency investments. That could deter investors even more and increase the cost of up front investments and thus hamper the up-scaling of deep or comprehensive renovations.

Instead of a further EU legislation on energy performance, we think it is more effective to stimulate sufficient smaller-scale sectoral or regional agreements. Parties (including market, NGO's and the public sector) can coordinate and agree on renovation targets and focus on removing (financial, regulatory, cultural, etc) barriers. E.g. Rent Covenant in the Netherlands and the Mayor's Covenant at European level.

This approach is also mentioned in the Energy Efficiency Financial Institution Group (EEFIG) report. The EU should therefore welcome such initiatives by stimulating the formation of networks (ranging from local to cross-border sectoral) and acceleration teams working on EE agreements and adapted financial instruments and intermediaries.

#### **What is still needed?**

- The quality insurance for providers, investors and tenants is crucial. More precisely, the maintenance professionals need more skills, the investors need reliable data on consumption and the tenants need ready to use and affordable technologies and comfort. To reach the NZEB targets until 2020, the policy can play a significant role to stimulate the road that we need to continue to head on.
- Promotion of small scale regional energy partnerships (clusters) to remove local financial or technical barriers to retrofitting
- Energy performance contracting and third party financing should be strengthened

#### **D. Smart Finance for Smart Buildings: Financing energy efficiency and renewable energy in buildings and creation of markets**

#### **Our members's experience**

At the same time as there is a huge potential for energy efficiency gains in the buildings, all of the measures needed are not profitable for the housing organizations – not even in the long run. We need to ensure that the renovation of housing will be among the eligible projects to the various EU funding opportunities. Such projects require long term and low-

cost capital financing, thus a public support in one form or another. Indeed a clear obstacle is the long payback time on investment, reducing interest of private investors or energy service contractors and resulting in a tendency to implement only superficial measures offering short-term returns. What we need is a subsidy covering the gap between energy efficiency measures that are profitable for the housing company in the long run and the climate goals, a guarantee that energy savings that don't cover the up-front costs and energy production made over the lifetime of the project is covered by subsidies. Key to success will be the guarantee for affordability for residents.

### **What is still needed?**

The European Commission generally holds the view that a minimum of public money should be mobilised to attract the maximum of private investments. There is also a widespread opinion among the European Commission that housing providers should play a further role in triggering energy efficiency investments.

The view of the majority of housing providers is however that the energy efficiency investments cannot pay for themselves in the sense that the energy savings are never sufficient (and often lower than expected) to reimburse the bulk of the investment. Any successful business case for energy efficiency in buildings will have to take the role of public finance into account. Either through the form of grants, or subsidised loans or first loss guarantee, public funds are still a crucial part of all energy efficiency investment models. This is particularly true for the affordable housing sector, whereby the capacity of tenants to contribute to the investments is extremely limited.

Although the role of public finance is supported by a wide range of stakeholders, the most efficient level and forms of public intervention are still debated. Public intervention can for instance take the form of a support to Energy Performance Contracting market, either by lowering the cost of capital to reduce the contract duration, by providing an extra contribution to reimburse the investments: grants or contribution of building owner, or extending the contract duration to allow payback of deep renovation. This has the advantage to support the development of energy efficiency companies.

Another and complementary approach consists in improving the demand and supply of low carbon finance by mobilising more funds from the European Investment Bank. How can it be done? The Bank itself is aware of the necessity to increase its lending activities in the housing sector, if the potential energy savings are to be tapped in. The preferred approach of the Bank so far has been to develop bilateral cooperation (an entity in a country X) and to provide the support to set up financial engineering instruments (on the basis of the JESSICA experience). An example of bilateral cooperation with UK: In December 2012 the EIB provided a GBP 400m Framework loan to The Housing Finance Corporation, a not - for - profit intermediary in the UK social housing sector. The schemes will be small to medium - scale (investment below EUR 50m) and involve retrofitting and

new build energy - efficient programmes carried out by registered UK housing associations.

The possibility of having a single European Funding Facility for Housing, managed by the European Investment Bank, has not been so far supported by the EIB, since it would require among other things a harmonisation of national regulatory aspects (for instance the possibility to raise rents in the aftermath of renovation investments). An increase of the “traditional” lending activities seems the most likely way of proceeding for the EIB in the years to come. However the EIB is keen on working with relevant stakeholders on how to improve the matching of supply and demand for low-carbon finance in the affordable housing sector (i.e. aggregation).

On top of that at the national level, Energy performance contracting and third party financing should be strengthened as well as other alternative financing schemes in (see for instance: [http://www.managenergy.net/lib/documents/868/original\\_3-221-13\\_Bullier - Alternative financing.pdf](http://www.managenergy.net/lib/documents/868/original_3-221-13_Bullier_-_Alternative_financing.pdf))

To sum up, the EPBD could help strengthen conventional and alternative ways to provide long-term low-cost capital financing for the renovation of social housing (bank loans, Energy performance contracting a la Energie sprong: <http://www.housingeurope.eu/resource-424/energiesprong-a-solution-to-eradicate-uk-fuel-poverty> )

## **E. Energy poverty and affordability of housing**

### **Our members experience:**

Combating fuel poverty should be a priority of the Energy Union with between 50 and 125 million Europeans being affected by it.

Groups affected by energy poverty (those who spend more than 10% of their income on their energy bill and those whose energy bill brings their “survival budget” down to that of households living below the poverty line) are much more prone to occasional and chronic illness. Studies carried out in different countries show that each Euro invested in thermal renovation of housing leads to a saving of 42 cents on health costs. Thermally upgrading housing will thus contribute not only to improving the quality of life of households but also to reducing Member States’ budget deficits.

Energy poverty is a stark reminder of the inequality in Europe: families in poor quality housing suffer because they cannot afford to heat their homes, and this is simply not just. What’s more, it increases income inequality. The poorest households often live in those houses with the worst energy performance. Both for reasons of social justice and for reasons of efficiency, public policy must make the 30% of households with the lowest income levels in each country a priority.

By targeting these households, we can get ourselves out of the energy poverty trap which sees the poorest people spending the most money to heat their homes, and in turn it would target houses that have the worst energy performance levels and have the least chance of being upgraded in the private market. The target is broad enough to ensure that people who are still living in vulnerable situations, but are just above the poverty line, are included in this solidarity measure. Investing in thermal renovation is a tool for social and territorial cohesion and will contribute to greater social justice in the EU.

As a result, low-income households will have a buffer in their family budget, which will translate into increased consumer spending in local markets, creating a virtuous circle for local level economic recovery, which, as we know, creates the best jobs. Moreover, local authorities cover part of household energy costs in several Member States. Investing in energy efficiency renovation in these homes will allow these public budgets to be reallocated to other solidarity measures.

### **What is still needed?**

Citizens, communities, cities, regions, member states and the European Institutions are all parts of this big Energy Union puzzle. Therefore, positive long-term European and national incentives and regulation are of crucial importance, while the amount of funding available will define the speed of the energy transition.

Alongside the Structural Funds (20% of European Regional Development Fund) allocated to the low-carbon economy, the European Fund for Strategic Investments may offer a much needed boost to refurbishments.

The EPBD could help in incentivizing the renovation of dwellings for low income families by allowing greater public support to both the landlords and the tenants.

## **G. Links between the EPBD and district and city levels, smart cities, and heating and cooling networks**

### **Our members' experience:**

Improved metering systems: one piece of the puzzle for the empowerment of residents

Driven by the ambition to provide a sustainable, affordable and responsible housing, many providers of public, social and cooperative housing have linked their refurbishment and new build activities with an increased cooperation with and involvement of tenants and residents in their programmes. One of the reasons (beyond the willingness to implement tenant's democracy) is that change of behaviour in matters of energy can help reduce the

energy consumption. Earlier projects and more recent surveys have indeed confirmed that a significant percentage of the total energy consumption of a household can be saved thanks to a change of energy consumption patterns. A crucial point however is that to help tenants to take control of their energy usage and make lifestyle changes to save money, improve comfort and deliver positive health outcomes, housing providers have used for many years now different techniques: home visits, illustrative guides, community events, and smart meters.

The focus laid down by the Energy efficiency directive (Articles 9, 10 and 11 and Annex VII of Directive 2012/27/EU on energy efficiency) on metering and billing of individual consumption of energy comes from the fact that without an adequate frame of reference, consumers cannot know whether their consumption is excessive or not. Meters (even smart meters) have been deployed since a few years in the housing stock of many providers. In many instances, results are positive only if measures are well designed together with tenants, implemented together with other supportive initiatives (aiming at engaging residents) and obviously technically feasible and cost effective.

#### **What is still needed?**

The EPBD could help to stimulate sufficient smaller-scale sectoral or regional agreements. Parties (including market, NGO's and the public sector) can coordinate and agree on renovation targets and focus on removing (financial, regulatory, cultural, etc) barriers. E.g. Rent Covenant in the Netherlands and the Mayor's Covenant at European level.

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