



The Consumer Voice in Europe

Financial Support for Energy Efficiency in Buildings

BEUC response to the European Commission's public consultation

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Introduction

Consumers across Europe increasingly suffer from rising energy prices. Eurostat statistics show a continuous increase of electricity prices for household consumers over the past decade¹ and therefore any reflection of environmental and social costs in final energy prices need to be carefully considered.

Throughout Europe, heating and cooling of buildings and in particular of residential housing amounts for a very large part of the total energy that European consumers use. Heating and cooling therefore also represents a large part of consumers' energy bills. Hence, it is important to tackle issues related to heating and cooling of buildings, as well as insulation standards, as a matter of priority. Drawing up the right policy on these matters will enable consumers to achieve higher degrees of energy efficiency.

Moreover, increasing the efficiency of European buildings will contribute to achieve the European Union's targets to build a more sustainable economy, helping decrease the amount of total energy consumed and reduce the total amount of CO2 emissions.

Furthermore, next to energy prices, poor heating and insulation standards are one of the main reasons that lead to energy poverty. It is essential that policy focuses on the most long-term and cost-effective solutions to solve energy poverty, namely the radical improvement to the energy efficiency standards of housing.

Policy therefore needs to focus, not only on more efficient new housing, but also, given the high proportion of existing homes, on their retrofitting and address all housing tenures. Adequate financial support for energy efficiency in buildings is therefore essential to enable all European consumers to be more energy efficient, but also in order to tackle energy poverty.

Financing and stimulating Energy Efficiency measures

As a first enabling step, it would be very helpful to undergo an EU-wide exercise to collect and compile an inventory of financial instruments for energy efficiency and energy efficiency measures that have been satisfactorily deployed in Member States, producing desired results and which satisfy the objectives and characteristics outlined below.

European financial tools are not necessarily designed to address the scale of the challenge to improve the efficiency of the EU housing stock as these challenges are often best tackled at national level. Investing in extensive energy efficiency improvement programmes will require a range of financing mechanisms, including grant support for vulnerable households funded by public expenditure. There are currently a broad range of national and EU programmes that can contribute to these objectives but they are not easily accessible, understandable or well co-ordinated. Rules and constraints for EU programmes are not always geared to the needs of consumers or local governments or to the most efficient delivery of energy savings.

¹ Eurostat, Data in Focus, 46/2010.

The means to better integrate EU funds with national programmes, whilst ensuring accountability for the achievement of identified outcomes, should be investigated further. Raising consumer awareness about the importance of energy efficiency, and importantly, of the availability and functioning of investment measures is paramount. Building a critical mass of awareness will help raise societal standards related to energy efficiency. Increasing the use, for example, of green public procurement, may have a spill over effect by raising awareness on these issues, but also by creating a critical mass that will encourage providers to invest into more energy efficient innovative products, thereby creating more attractive products for residential consumers.

Further, the European Commission should strongly encourage Member States to make energy efficiency measures accessible to all and support them in creating and investing in extensive energy efficiency improvement programmes to tackle energy poverty. Programmes should also have targets which aim to improve homes to the highest energy efficiency standards in the most cost-effective way for consumers.

Consumer engagement will require a combination of multiple policy levers, some of which fall under EU jurisdiction and others which lie within the competences of Member States and so require flexibility to accommodate the respective local weathers and cultures. It is for this reason that BEUC continues to call for strict obligations on each Member State to report and publish on their respective strategies to deliver energy efficiency and carbon savings.

We identify at least three markets that are failing to stimulate energy efficiency:

- Rising energy bills are not in turn generating additional investments in energy efficiency. Research undertaken² by BEUC's member Consumer Focus found that energy inflation has resulted in the wealthy using the same amount of energy and paying more; whilst the lowest income households use less energy and may be harming their health by underheating their homes.
- The energy efficiency market is failing to effectively market their products and services. There are multiple barriers including motivation, awareness, affordability and tenure that it must overcome.
- The property market (at least in the UK) fails to value energy efficiency, either in terms of cost savings or in terms of comfort. A positive valuation would stimulate consumer interest.

² Levell, P & Oldfield, Z (2011), The spending patterns and inflation experience of low income households over the past decade, research commissioned by Consumer Focus from the Institute for Fiscal Studies.

Information provision

As rightly pointed out in the European Commission's consultation paper, information provision is one of the most important market failures regarding energy efficiency measures. Consumers often do not get sufficient information on all energy efficiency technologies or providers of energy efficiency services that are accessible to them and how they can benefit from them the most. Furthermore, consumers are often not aware of what reliable energy service providers are present in their area, which further makes the task of identifying the efficiency services that are useful and accessible to them even harder.

Therefore, building on the approach established in the Third Energy Package, single points of contact should be in place to provide basic energy services advice on energy efficiency, smart metering services and energy bills and to signpost consumers to accredited providers. This mechanism must ensure that advisors are independent of equipment manufacturers and service providers, and advice is impartial and tailored to meet consumers' needs.

Information and education to boost behavioural change

Education on energy efficiency measures plays an important role in the process of behavioural change. A clear vision with a supporting social marketing strategy must be led at national level in all Member States, whilst enabling and incentivising specific targeted campaigns at the local level. Consumers are most likely to change behaviour if they hear a message both from an external official source at national level and a familiar trustful source at their local, community level. It is only through the increase in information provision and education that consumers will be more encouraged to make decisions to invest in energy efficiency measures. Moreover, it is important to bear in mind that not all consumers are the same and therefore different consumer groups should be approached differently, as they will have different needs, interests and expectations.

Energy Certificates and labels

Besides the barriers mentioned in the consultation paper, we also observe the lack of comparable European energy certificates. Comparability of energy labels in buildings plays an important role in building consumer trust in the sector and mobilising consumers to undertake further investments in energy efficient measures. However, some Member States have these certificates in place while others do not.

Furthermore, a weakness that has been identified in the existing Energy Performance Certificates (EPCs) is that information provided does not serve as either a carrot or a stick until it has a clear financial value. For example, in the UK, Consumer Focus's recent research shows that at present consumers are not influenced by the EPC even when it is provided to them (*Room for Improvement*, 2011).

In addition to this, it is likely that there will be varying certification systems for different energy efficiency products, services and energy improvement measures. Therefore, there should be a single accreditation framework for all certification schemes which will help consumers to identify an acknowledged, trustworthy energy service provider.

Regarding energy labels, in the building sector they can offer the support needed for private financing uptake. These investments are more rewarded in inefficient buildings as they will more easily produce economic benefits for consumers. Further, an efficiency investment in a building could be more easily perceived to the exterior through such labels. Practical examples of this include the energy house codes in France and the KfW fund for energy efficiency in buildings in Germany.

Incentivising landlords and tenants

The principal-agent problem is recognised as an issue of considerable concern for European consumers. It is of utmost importance that solutions are found to incentivize both tenants and landlords to invest in energy efficiency measures. Tenants are particularly affected due to the fact that they pay higher rents for the more inefficient houses, yet they are not in a position to take up investments for a house that is not theirs. The introduction of specific recognised comparable codes could help tenants identify the more efficient homes and incentivize owners to be more competitive by investing in energy efficiency measures. Consumers would therefore be interested in renting out places that would offer them the best energy savings, a fact that can further motivate owners to invest in energy efficiency measures in their buildings. Minimum standards could also be applied to drive action where information does not stimulate the market. For example, the UK will ban the letting of the least efficient homes (based on the EPC) in the private rental sector from 2018.

Renovation targets

Renovation targets for private buildings surely need careful consideration but any such targets would need to be accompanied by measures, especially financial incentives, for consumers to be able to refurbish their homes in a cost-efficient way. These financial incentives need to be acceptable to consumers and any targets should not impose unreasonable demands on them. This also relates to the idea of a sustainable renovation process which does not only comprise environmental aspects but also takes economic and social aspects into account.

Examples of Good Practice

Sweden

In Sweden the local municipal energy advice centres have been instrumental in guiding the individual consumer towards energy investments. They give guidance on possible ways to reduce energy consumption and help consumers calculate investments and give advice in the case of governmental grants or tax reliefs in relation to energy savings. Sometimes these local offices work in cooperation with local consumer advice centres.

From a Swedish perspective, there are examples of tax reliefs for renovation, grants for installing more effective energy systems and support systems for switching to low energy windows. A problem that arises often is the temporary nature of these initiatives and there has been criticism that not all of the initiatives have been that well designed to give the best result in relation to the level of public funding invested in the initiative.

United Kingdom

A report done by Consumer Focus in 2010³ and the activity since then, demonstrates that an area-based approach to energy efficiency can deliver important social and environmental benefits, especially in areas with higher concentrations of people living in energy poverty. Benefits include improving the housing stock, participation through “word of mouth” effects, and economies of scale and cost efficiencies.

Challenges for traditional energy poverty/energy efficiency schemes targeted at individual households included:

- The more targeted the programmes were, the more difficulties they encountered in identifying and engaging people who qualified for the programme.
- As energy costs rose, more people fell into energy poverty and whilst they would benefit from basic insulation measures, they either would not apply for the programmes, or necessarily qualify if they did apply.
- Individuals who could qualify for the programme lived in flats, so treating the individual house wasn't an option.
- Regarding the number of people interested in taking up insulation measures proactively, a new model was required to pick up the less active consumers.
- Climate change emissions reductions became a better-known issue and the awareness of the importance of the climate change challenge rose.

³ [“Energising Communities: Learning from Area-Based Energy Efficiency Projects in Scotland”](#) published by Consumer Focus.

Area-based schemes have made progress in all of the aforementioned areas. The model which has evolved is one where basic measures are provided free for all consumers, with areas identified by local authorities, including towards those likely to be energy poor, but not limited to them. The assessment process also identifies and signposts, quite successfully, individuals who qualify for more support. This model provides significant advantages, namely:

- It overcomes the problem of whether some qualify or not, and also has made a huge difference when dealing with blocks of flats where, otherwise, a single owner could block the installation of measures.
- It also removes any possible social stigma such as those that arise when it is perceived that people get free insulation because of their economic situation.
- It has much lower unit costs for delivery of measures than delivery to individual consumers.
- At its best, it utilises social marketing through original methods such as conversations in the post office.

Conclusions

- **Incentivise and encourage all-encompassing energy efficiency programmes**
An energy-efficient economy should be built with producers, retailers and consumers alike. A range of financial measures is necessary to support the delivery of energy efficient measures to new and existing homes. National Governments should take action to place a greater value on energy efficiency in the property market through minimum standards and fiscal incentives which prove to be effective in stimulating the development of other product sectors, such as energy efficiency appliances and low-emission cars. Together with financial mechanisms that remove the upfront cost barrier to energy efficiency, and allow consumers to pay as they save, this should help to incentivize able-to-pay owner-occupiers and landlords to invest in energy efficiency.
- **Ensure that financial measures are transparent and tailored to consumers' realities**
Although important aspects, market and regulatory barriers do not single-handedly account for the difficulties in engaging into energy efficiency works. It should also be stated that certain measures might not pay off for consumers and that consumers are thus faced by extraordinary investment costs. Financial measures should thus include social aspects. Further, these measures should be transparent as to the cost/benefit ratio they will bring to consumers, in order for them to be able to make an informed decision.

- **Pay special attention to vulnerable consumers**
Market incentives and price signals should be supported but in ways that have regard to the interests of low income and vulnerable consumers. For example, it should be recognised that most low income consumers cannot afford to pay the up-front installation costs of refurbishment.
- **Ensure that both newly built and existing buildings have specifically tailored financial measures**
Last but not least, we would recommend a clear distinction between new and existing buildings. High standards are required for new buildings where energy efficiency objectives can be addressed through available knowledge and skills. These new buildings should last longer, therefore extending the lifetime of the efficiency measure. On the other hand, old buildings are more numerous and offer a bigger potential to be more efficient. They should hence receive special attention.

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