Brussels, 22 December 2012

Subject: Public consultation on EIB’s Energy Lending Policy

CEDEC Contribution

CEDEC represents the interests of local and regional energy companies. CEDEC represents around 1500 companies with a total turnover of 100 billion Euros, serving 75 million electricity and gas customers & connections, with more than 250,000 employees. These predominantly medium-sized local and regional energy companies have developed activities as electricity and heat generators, electricity and gas distribution grid & metering operators and energy (services) suppliers.

CEDEC would like to thank the EIB for the opportunity to participate in this public consultation.

Key issues:

How does investment in the energy sector contribute to growth and employment?

Are investments in all energy sub-sectors equally valuable?

And how does investment in the energy sector rank relative to other investments in the economy which support growth and employment?

CEDEC is convinced that a locally produced sustainable energy supply contributes considerably to the EIB’s growth and employment agenda. Investments in local generation facilities based on renewable energy sources triggers investments in local infrastructures and leads to growing employment in all parts of the value chain from planning, production, installation, distribution and supply of new energy services. Jobs with both high- and low qualification requirements have and will be created in these areas. The Greenpeace Energy
Revolution scenarios shows that employment rates in the renewable energy sector will rise considerably with increasing shares of – mainly decentralized - RES, while the employment rates in the conventional energy sector will drop¹.

Moreover, the overall macro-economic benefits of local energy production based on renewables have to be taken into account. Local resources, such as raw materials and geological and meteorological potentials can be exploited in cost-efficient ways. Imports of fossil fuels at volatile prices as well as large-scale investments and upgrades of transmission lines are being avoided by local, sustainable production of energy while the supply independence rises considerably.

Mainly for the reasons of decreasing import dependency, better social acceptance and the increasing sustainability of energy generation through renewable energy and energy efficiency measures, which have been defined as the ‘no-regrets’ options in EU policy – making, investments in a domestic and clean energy supply, have enormous overall benefits and therefore these rank high in comparison to other investments.

Security of supply:

Is the traditional model for electricity transmission and distribution changing? What implications does this have for future investments in electricity networks?

What is the future role of smart grids, offshore grids and energy storage solutions?

The traditional responsibilities in transmission and distribution of electricity will change drastically in the future. The vast majority of renewable energy is fed into the distribution grid at medium and low-voltage level (e.g. currently 97% in Germany). Hence numerous micro-generators need to be connected to the grid and managed. The variable generation of electricity requires additional efforts of managing and balancing the grid in order to ensure the security of supply. For this reason, investments in the distribution grid will need to be made in order for the low and medium voltage grids to be upgraded and extended and “smartened”, also with new ICT technologies.

The high potentials of the distribution grids in ensuring and managing the security of supply and reaching the 2020 targets have been underestimated so far. The recently adopted regulation on trans-European energy infrastructure mainly focuses on inter-connections between European countries on transmission level, and on the construction of a European network of electricity highways. The requirements for smart grids to receive a PCI (Project of Common Interest) status are impossible to fulfil for most DSOs. Hence, projects from the large number of small and medium-sized distribution companies will not be eligible for funds from the Connecting Europe Facility. This financing gap needs to be filled with loans and grants from the European Investments Bank and its intermediary banks.

¹ Energy evolution, Greenpeace and EREC, 2012
Important parts of future smart grids will be innovative demand-side management tools as well as decentralised storage systems. Only with the opportunity to store electricity at times of high supply and low demand and the release of it during times of high demand will a smart grid work in its most effective way. Therefore, enough funding should be made available for research and development and the deployment of smart grids including decentralised small-scale storage facilities.

RES:

What level of investment in RE do you expect in the short and medium term?

Local Energy Companies are highly committed to renewable energy and energy efficiency, which have been identified as the “no regret options” for a sustainable decarbonised European energy supply in the Energy Roadmap 2050, positive investments signals have been sent. According to Bloomberg New Energy Finance, global investment in renewable energy projects will rise from $195bn in 2010 to $395bn in 2020 and to $460bn by 2030\(^2\). This process will be driven by immense technology development, which already has led onshore wind and hydropower to competitiveness and will close the gap for other technologies in the short-to medium term.

What are the barriers to investments in this sector and how might these be overcome?

A barrier for the further development of renewable is the lacking level playing field in the energy market, which has been designed around the needs of conventional energy generation and needs to be adjusted with new mechanisms to accommodate the increasing shares of renewable energy in the most efficient and cost-effective way.

Moreover, unstable and ambiguous policy frameworks for the support of renewable energy have hampered the deployment. Support schemes for renewable energy are supposed to create investor confidence and stable investment conditions. Retrospective changes to support levels and stop-and-go policies therefore have to be avoided. The increasing risks through abrupt changes to support schemes can lead to unnecessary high costs of capital.

Another important barrier for the investments has proven to be administrative procedures. Long lead times for projects as well as missing transparency and clear distribution of responsibilities often still compromise the realisation of projects and destruct investor confidence.

Therefore, the European Commission should present a stable policy framework for renewable energy beyond the year 2020 as soon as possible. Only with a reliable legislative framework underpinning the transition of the energy system towards sustainability and energy import independence will investors feel sufficient security for continuous investments.

With heating contributing to almost half of the final European energy consumption, the potential of the sector has been largely underestimated in the past. Local energy companies have invested heavily in district heating networks and CEDEC sees an immense potential in the heating and cooling sector for the future, especially with regard to district heating based on renewable sources such as biomass and geothermal energy. With district heating networks, local resources can be used in an efficient manner and will significantly contribute to the decarbonisation of the heating and cooling sector. In order to exploit the full potential of the technology however, investments in more efficient and flexible systems, including storage facilities need to be made.

Non-technical barriers for untapped potentials have been:

- Lack of information
- Weak regulatory frameworks, missing policy support
- Missing stimulation/financial support
- Standardisation and certification
- Training/installation
- Currently low CO2 prices failing to give investment signals for low-carbon technologies

Energy Efficiency

One - if not the single most important - factor is the lacking access to capital. Especially in the public and residential sector the accessibility of financial means is often low and criteria very hard to fulfill. Hence, the provision of loans and grants is crucial for successful projects.

Among the most common is still a lack of information about energy-efficient solutions and the associated cost-savings. The lack of awareness does not only prevail on the demand-side but also among manufacturers, retailers and installers. Therefore, information and training are two main areas for improvement.

Another crucial point are split incentives for energy efficiency. This means that the benefit is not with the investor. For example, the investments into energy-efficient solutions in the
housing sector are often made by landlords but the immediate benefit is witnessed by the tenants. Hence, investments in energy-efficiency measures are often hampered by inertia.

Moreover, a considerable barrier to investments remains risk aversion: The sometimes lengthy payback periods for long-term investments in energy efficiency are a risk many end-users try to avoid. Potential suppliers of efficient solutions also face the risk whether the market will accept these solutions. Moreover, there is considerable uncertainty about the transaction costs involved with obtaining information and about the costs and benefits of improving energy efficiency. Consequently, risk aversion prevents economic actors from assessing the economic viability of energy efficiency measures over the whole lifetime of the equipment.

Finally, a clear regulatory framework, including a legally binding nature of the energy efficiency target of 20% for the year 2020 but also beyond should be implemented to give investors security also in the medium-to long-term.

Do you consider the criteria used by the Bank to categorise projects as Energy Efficiency projects appropriate (see Annex 1)? What alternative would you propose?

The EIB criteria for energy efficiency projects (20% reduction of energy consumption, or energy savings account for 50% of investment costs over project’s life) seem appropriate at first glance, but need to be refined according to the different types of energy consumers and their respective investment or cost-bearing capacities.

CEDEC can support the eligibility for combined heat and power plants under the energy efficiency programme. Additional priority should be given to plants with generation from renewable energy sources. Local energy companies have undertaken heavy investments in highly efficient cogeneration plants and a lot of capacity is currently under construction which will replace less efficient and high-emission generation plants based on fossil fuels.

RDI:

Which are the key innovative energy technologies under development? The development of which key innovative low-carbon energy technologies should receive most financial support?

As a smart and effective and efficient energy infrastructure will be the backbone of the future energy system, smart grids on the distribution level will play a crucial role with increasing in feeds of energy at the low and medium voltage level. Therefore, smart grid infrastructure & technologies (including demand-side management tools), and decentralised storage systems should be reserved a substantial part of the EIB’s funding in the energy sector.
As smart grid projects are developed in the local or regional level, but do however have a significant impact on the functioning of the European energy system as well, financial support should be evenly spread among those projects. Several pilot projects have already been developed by small and medium-sized enterprises (examples: EWE (D), Stadtwerke Mannheim (D), Enexis (NL), Infrax (B)), which have besides good technical results, created benefits for regional development.

**Gas**

Gas is an important bridging fuel source in the transition to a low carbon economy: to what extent and under what conditions should gas-fired generation be supported?

Do you expect the share of natural gas in EU primary energy consumption to grow further?

What would be the best approach to increase security of gas supply and reduce import dependency?

Given the large uncertainty on future gas demand, what is the risk that investment in natural gas infrastructure may be stranded?

Gas will remain an important fuel source in the European energy sector in the transition to a low-carbon technology due to its relatively lower CO2 emission when compared with coal and its flexibility capacity as back-up for variable generation of some forms of renewable energy. For these reasons, and under the assumption of rising CO2 prices, which will provoke a fuel-switch from coal to gas, the share of natural gas in the European energy mix can be considered to rise.

As the risk for stranded investments in gas infrastructure cannot be excluded on medium term, investments in natural gas infrastructure should take into account shorter depreciation periods, going down from currently (till) 50 years for distribution grids to a maximum of 20 years.

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