



**Feedback by DENEFF and DENEFF EDL_HUB on draft revised
Climate, Energy and Environment Aid Guidelines
(CEEAG)**

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DENEFF – The German Business Initiative for Energy Efficiency – is the voice of Germany’s energy efficiency industry, which accounts for about 600,000 employees. The EDL_HUB speaks for Germany’s ESCO frontrunners in particular. Significantly increasing energy efficiency in all sectors and across Europe is key for Europe to reach its higher climate targets, to kickstart a green recovery from the current economic crisis. It is also a central driver in providing modern, healthy, and comfortable places to live and work for all Europeans as well as competitive, climate-friendly industrial jobs.

To achieve the objectives of the European Green Deal for 2030 and 2050, unprecedented investments and reforms are needed. To make the sustainable economic transformation to success, it is essential to remove all existing regulatory, administrative, and financial barriers for private and public investors. This includes well-designed State Aid schemes that facilitate the enormous investments that are necessary for a sustainable economic recovery and for achieving EU energy and climate targets. We therefore strongly welcome the intention behind this revision of the CEEAG.

Notice: We also took notice of the recently published amendment of the GBER. Since there was no consultation of a draft including such significant changes with possible negative market impact, we feel more than irritated. Some critical issues included in this draft are also touched in this feedback paper. We appeal to the EU-Commission to reconsider the recent GBER amendments and start a proper consultation.

However, we would like to draw attention to a number of points in the CEEAG draft that either prevent the realization of the full energy efficiency potential or would even lead to a sharp decrease in projects. As this would threaten the success of the Green Deal, we urgently ask you to consider revising relevant parts of the CEEAG, taking into account the following recommendations:

- 1. Create a level playing field for investment aid for energy efficiency measures in line with the “Energy Efficiency First” principle. Allow a fixed aid intensity in grant programmes grants instead of bidding processes for energy efficiency in industry (sections 4.1 and 4.2).**

Recommendation:

We strongly recommend defining a general maximum aid intensity ceiling for energy efficiency measures including in buildings to (at least) the same level as those provided for aid to renewable energies under the current EEAG, i. e., 65% for small enterprises, 55% for medium-sized enterprises and 45% for large enterprises, or 100% for all when the aid is allocated pursuant to a bidding process. Bidding processes should not have priority over traditional grant programmes or even become the standard procedure.

Justification:

We welcome the overdue, generally equal treatment of energy efficiency and renewable energy in the CEEAG regarding investment aid. However, one of the main tasks of the revision should also be to make State aid less of a barrier to the necessary Green Deal investments.

While we endorse energy efficiency tenders, this tool works best when there is an obligated party interested in generating many projects. Requiring bidding processes for all State aid as foreseen in the CEEAG draft will, if poorly implemented, cause high transaction costs especially for SMEs and will lead to far fewer projects being implemented because of the additional complexity, uncertainty and delays involved. Traditional grant programmes that companies and energy advisors know well should not be abandoned. The ceiling of 400 kW for energy efficiency projects requiring no bidding process needs to

be deleted, as energy efficiency projects especially in industry follow a different and more individualized logic from simple, commoditized energy generation projects.

2. Enable investments by simplifying rules instead of creating new barriers to aid for energy efficiency in buildings and industry (sections 4.1 and 4.2)

Recommendations:

- a. Minimum energy performance improvement thresholds for single and staged building renovation measures must be deleted from CEEAG (4.2).

Justification:

In order to double the renovation rate as envisioned by the Renovation Wave communication, Europe needs both more single measures and more deep renovations implemented. The CEEAG draft acknowledges this by increasing the aid intensity ceiling for deeper renovations to at least 45 %. However, at the same time, the draft practically excludes single energy efficiency measures from aid. This would be extremely detrimental to the overall level of renovation activity and the aims of the Green Deal.

The draft currently states that only measures leading to a primary energy demand reduction of at least 20% would qualify for aid. If these 20% are meant to refer to the energy performance of the whole building, this would exclude very many efficiency measures pertaining to the roof, windows, insulation or technical building systems, which on their own often do not reach 20% savings. In combination and over time, however, they are the key to significant performance improvements where owners cannot invest in a single step deep renovation. Evidence from German (and other European) funding programmes shows that most energy performance improvements are individual measures, most of which the CEEAG would exclude from funding under the new rules, leading to a sharp drop in projects that is highly unlikely to be compensated by more deep renovations. This cannot be intention of the State aid revision.

The planned derogation from the 20% savings rule for staged renovations over a period of three years adds another unnecessary and impractical layer of complexity to the rules which will further deter owners – e. g. in Germany, individual building renovation roadmaps, endorsed by the Commission, commonly have a more realistic planning horizon of 15 to 20 years, and do not even exist yet for non-residential buildings falling under State Aid rules

Renovating buildings and accessing Member State support for this important challenge need to become much easier, not more difficult. A fixed EU aid intensity ceiling of 45% (plus SME bonuses) for all projects would reduce CEEAG complexity and give Member States sufficient flexibility to define adequate aid intensities for different levels of ambition under this roof.

- b. The CEEAG should simplify requirements on eligible costs for energy efficiency investments. Especially for building renovations, the default assumption for all building types (not limited to just housing) should be a “no renovation” scenario as the relevant counterfactual. For highly efficient new buildings, the total project cost should be eligible. The same principles should apply to investments in energy efficiency improvements in industrial production, where the counterfactual for additional costs should be a “no investment” scenario if measures go beyond existing minimum standards (4.1 and 4.2).

Justification:

Delimitations to assess eligible costs can dramatically restrict the remaining total state funding for energy efficiency measures. Only “additional costs” against a counterfactual baseline are eligible instead of the total costs of energy efficiency projects. This is despite the fact that in many cases, it cannot be assumed that e.g., a renovation would be attempted at all without the subsidy. It is also methodologically complicated to separate parts of an investment that do not improve energy performance per se but are a necessary part of such investments. As long as programmes continue to be limited in this way, supporting only a percentage of the additional costs so narrowly defined, split incentives cannot successfully be addressed by State Aid. In consequence, Paris-compatible construction and renovation will not happen at the necessary rate, especially in the rental and tertiary sectors.

Analogous improvements to the CEEAG framework for industrial energy efficiency investments similarly would go a long way towards reducing the administrative burden and uncertainty that currently deter companies from making ambitious energy efficiency investments with state help.

- c. Aid for new buildings should be linked to an energy performance improvement of at least 10% compared to the cost-optimal level, regardless of the national definition of nZEB (4.2)

Justification:

Unfortunately, cost-optimality has become the de facto definition of nZEB. This is the minimum, stopgap ambition level defined in the EPBD, but seldom enough to reach climate targets. Thus, incentives to realize a higher level of ambition are often necessary. However, if a Member State decided to define nZEB going beyond the cost-optimal level, it would no longer be able to give aid to support compliance. That is why the CEEAG should explicitly leave room to grant aid for new buildings exceeding cost-optimal levels even if the aid is used to close a funding gap in complying with a national nZEB standard.

3. Ensure that State aid rules do not jeopardise planned minimum energy performance standards (MEPS) for existing buildings (Para. 78 & 122)

Recommendation:

State aid must enable building energy efficiency investments even when MEPS are introduced in the upcoming EPBD revision. The CEEAG thus need to clearly outline how millions of building owners, including private landlords, can still be supported in complying with MEPS before and after the enforcement deadline. Ideally, this would be done by clearly defining in the CEEAG that MEPS will not be considered a relevant Union standard. At the very least, individual undertakings should be able to apply for State aid up to 6 months before a relevant Union standard enters into force.

Justification:

MEPS are the cornerstone of the Renovation Wave. That is why they must be implemented in a robust and impactful manner, which can only be assured by embedding them in an enabling framework that includes adequate financial support. In most Member States, MEPS would likely address owners falling under the scope of the CEEAG first. Yet both applicable draft paragraphs 78 and 122, currently provide neither sufficient security to building owners nor sufficient scope for Member States to support the necessary investments. Para. 78 leaves the status of MEPS as a possible Union standard unclear, while

para. 122 is unnecessarily restrictive by requiring completion of all measures 18 months before MEPS enforcement, leaving too short a time window during which building owners could be supported.

4. End the discrimination of energy services (sections 2.4, 4.1 and 4.2)

Recommendations:

- a. Define energy services in CEEAG in reference to EU Directive 2006/32/EC und 2012/27/EU, consider energy services in buildings but also in the context of industry and enshrine an anti-discrimination clause in CEEAG referring to the Energy Efficiency Directive EED 2012/27/EU Art 18, Art 27 stating that energy service companies (ESCOs) must be treated equally. The goal of energy services is not only reliable, economical delivery of energy, but also measured savings of primary and final energy and CO₂ in accordance with the aims of the EED und RED. Energy services include energy performance and energy supply contracting with a significant savings component or other types of contracting involving efficiency gains and CO₂ savings. In practice, energy services contain a number of business schemes including highly efficient energy supply of neighbourhoods and buildings, high-efficient energy supply in industrial processes and energy performance contracting schemes especially in public buildings and in industry.

Justification: The ambitious EU climate targets and increasing complexity of decarbonization projects in all sectors require both technical expertise and suitable financing solutions in order to realize the full potential for savings. ESCOs must be put into the position to deliver these benefits and thereby open up significant Carbon reduction segments that are currently underserved and underinvest in decarbonization. As stated in the Energy Efficiency Directive EED 2012/27/EU ESCOs are providing significant contributions to the decarbonization of the building and industry sector and should have the same framework conditions and opportunities as leasing or any other way of implementing energy and decarbonization investments. This should include the establishment of equal access to State Aid to ensure a fair competitive environment.

Although EU definitions of energy services exist, they have so far not been taken up in the CEEAG and other relevant State Aid documents. This can lead to national interpretations putting energy services at a disadvantage. Also, State Aid rules are still being used to justify grave discriminations of energy services at Member State level despite the clear EED requirement to foster equal treatment of energy services. Examples of this are unfavourable payments and levies for energy service companies under the German renewables (EEG) and CHP (KWKG) laws compared to other investors.

Also, energy services play an important role in the decarbonization of industry which requires to relate the use of energy services not exclusively to buildings but also to industry in the definition of energy services.

- b. Remove artificial barriers and unleash the potential of energy services by fully opening State aid to non-SME energy service providers and all relevant energy services, and by explicitly mentioning them as an implementation option for both buildings and industry.

Justification: In the current CEEAG draft, energy services are only explicitly mentioned as an option for buildings, not industry, even though this is a large and promising field for carbon reduction by energy services. This creates the impression that energy services are not eligible for aid in industrial applications, resulting in discrimination. Similarly, the draft limits building sector aid to

energy service providers that are SMEs. Many energy service providers are considered large undertakings, to reach the scale and level of specialization necessary to implement complex projects. Energy services would be the only large undertakings excluded from aid, which constitutes a clear case of discrimination. There is no possible justification for excluding these providers from aid, especially as the ultimate beneficiary is the customer, who is directly eligible for aid, whether large undertaking or SME. Finally, the definition of energy services eligible for aid needs to be expanded in accordance with point a. above. In the current draft, it is limited to one type of business model, energy performance contracting, that does not adequately reflect the variety of services in the market contributing to decarbonization and is thus unnecessarily exclusionary.

5. Make energy efficiency improvements an integral part of aid in the form of reductions from electricity levies for energy-intensive users (section 4.11.3.4)

Recommendation:

Strengthen the requirements for aid recipients to implement energy efficiency improvements by requiring the implementation of all measures with a positive net present value assessed using EN 17463 and identified in mandatory audits, energy management systems, or by participating in industrial energy efficiency networks.

The option of complying by procuring a certain share of carbon-free electricity needs to be deleted.

Energy intensity thresholds should not apply in cases where the implementation of energy efficiency measures is cause for a reduction of a company's energy intensity and would threaten it to lose its status as energy-intensive undertakings. In practice this is significant barrier why possible improvement measures are not implemented.

Justification:

The current CEEAG draft only requires Member States to check whether aid beneficiaries comply with energy audit requirements under the EED, but does not set its own clear audit or energy management system requirements. This needs to be remedied, and the option of complying by participation in an industrial energy efficiency network added, as these often lead to high implementation rates. Instead of requiring aid beneficiaries to implement at least those efficiency measures with a reasonable payback time, the net present value of an investment is the more meaningful indicator and should therefore be used to assess the economic viability of an energy efficiency investment identified in audits or energy management systems.

Furthermore, the option of alternatively complying with this requirement by procuring at least 30% carbon-free electricity is a loophole that needs to be closed. In Germany and some other EU countries, the renewable share in the electricity mix already is higher than 30%, resulting in no additional action by the energy-intensive undertaking.

Under current rules, energy-intensive undertakings implementing efficiency measures risk losing their energy-intensive status and thus eligibility for aid because of inflexible thresholds, so they have no incentive to reduce specific energy consumption beyond a certain point even though they could. This needs to be addressed e. g. by exempting them from the threshold if they can demonstrate the relevant improvements in energy intensity are cause by implemented energy efficiency measures, and only refer to the list of relevant sectors in these cases.