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OF INTELLIGENT ENERGY EFFICIENCY SERVICES

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EFIEES contribution to the consultation Green Paper "A 2030 Framework for climate and energy policies"

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EFIEES

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EFIEES represents private companies ensuring an overall management of energy demand to end-user (Energy Efficiency Service Companies, EESCs). These companies provide operational maintenance and management of equipment of their industrial, tertiary and residential customers (collective or individual), public and private, particularly sporting facilities, schools, and hospitals. They commit, by long-term contracts, a technical, financial, economic and environmental performance.

EFIEES members are involved in the production/distribution of heat in several Member States as well as in operation of District Heating networks.

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QUESTIONS AND ANSWERS

1.1. General

Q: Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

- **The EU needs binding energy efficiency targets**

European Union is not on track to achieve its 2020 energy efficiency target which clearly indicates that non-binding EU energy efficiency policy shows its limits.

Strong energy efficiency policy has a potential to address all three EU energy/climate objectives, which are: **sustainability, security of supply and competitiveness. Energy efficiency savings are key for decarbonisation of the EU economy** as by reducing energy demand they contribute to the reduction of CO2 emissions and facilitate the transition towards renewable energy.

⇒ **Consequently, EFIEES supports binding EU energy efficiency targets, in combination with targets on CO2 reduction and development of renewable energies.**

- **Marked-based approach should be the main driver for shaping the future EU climate/energy Framework**

1. **Targets on energy efficiency**

Targets are crucial instruments leading to energy transition of the EU. Hence, the way in which they are defined is key. To that effect targets should:

- Reflect clearly defined and justified **level of ambition,**
- Be based on **cost-benefit analysis**, for their definition and implementation,
- Result from **bottom-up approach, the contribution of each sector should be based on its respective potential for contribution to achieving energy and climate targets.**
- Implementation **should result from the market in order to optimise cost-effectiveness as well as the size of the energy infrastructures.**

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2. Targets on renewable energy

The implementation of current RES targets at national level is not based on the market, but on purchase obligations, which are not linked to cost effective technologies. In the absence of optimisation of costs and benefits, **purchase obligations are responsible for overcapacities**, and **lower wholesale prices for electricity**. These obligations disadvantage cogeneration installations, as far as "merit order" is concerned, and do longer allow their adequate remuneration, as well as all non-renewable energy infrastructure.

A revised EU renewable policy should **1. Give priority to cost effective options and solutions adapted to permanent energy demand** in comparison to solutions that produce energy in an intermittent way, such as solar or wind energy, **2. Give high consideration for measures aiming at realising the potential for more renewables in the heat production.** In line with this, it is essential that recovered heat be recognised as equivalent to renewables at the EU level.

3. Improvements needed within the EU ETS

a) Deficiencies within the EU ETS

- The price of carbon has collapsed within the EU Emissions Trading Scheme (EU ETS) as only emissions have been taken into account and not the carbon intensity of the economy;
- EU ETS system may trigger investments in the electricity sector, but does not have a potential to easily address the heating sector for two main reasons. On the one hand, the ETS does not address the whole sector (installations below 20MW are not under the EU ETS - see below). On the other hand, the CO2 cost generated might not always trigger investments among producers, that's the case for District Heating & Cooling (DHC) networks due to competition with non-ETS heating solutions.
- In terms of energy efficiency and CO2 emission, Europe is considering only CO2 emissions from the combustion itself, and does not address extraction costs nor energy transportation and transformation costs. It does not bring full basis for comparison between energies coming from long distance (biomass importation or long-distance gas) or using a lot of energy for their transformation (pellets) and locally produced primary energy;
    - The total amount of CO2 emitted during the combustion of energy, including CO2 emitted to extract and transport the energy to the site of combustion should be considered and not only the emission of the combustion itself;
- It doesn't provide any solution for competition distortion both externally ("external carbon leakage"), and internally ("internal carbon leakage"). The latter exist especially between heat networks included in the EU ETS (which are subject to an additional carbon cost) and the individual heat production plants, which are not (see below).

b) Need to delete distortions of competition in heat sector, between EU-ETS installations and non-EU ETS <20 MW installations

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District Heating and Cooling networks are covered by the EU ETS, whereas individual heating solutions/combustion installations < 20 MW are not. The latter creates distortions on heat market influencing disconnections from DHC and has a negative impact on CO2 emissions. [1]

This lack of balance is even more striking if one notes that 40% of the EU final energy consumption is in housing, public and private offices, commercial and other building types. In particular, in residential homes, space heating accounts for two thirds of the final energy consumption.2

District heating serves 12.4% of the EU citizens[3]**. The EU ETS currently ignores almost 90% of the heating sector.** In order to stimulate energy efficiency and renewable energy, it is crucial to tackle this type of distortion on heat market. A radical rethinking of the situation is urgently needed in order to identify pragmatic ways of bridging the gap between ETS and non-ETS heating solutions, currently leading to a real **"domestic carbon leakage"**, so that diffuse CO2 emissions were eligible for EU ETS treatment.

⇒ **This inconsistency needs to be deleted, by covering suppliers of primary energy to non-EU ETS clients by the EU ETS.**

c) Emission reduction within the EU ETS should result from investments in energy efficiency and renewables, not from a reduction in economic activity and lower demand in electricity on the market

Targets should be reached not through a reduction in economic activity, but through investments in energy efficiency and/or renewable energy. This regular improvement in performance would prevent a massive rise in carbon costs in the event of an economic recovery.

4. Need for a solid vision for heat policy based on robust statistics

Heating and cooling represent 47% of Europe's final energy consumption. At the same time, the EU lacks a clear vision for this sector which has been confirmed by the conclusions of International Energy Agency which stated in its "Energy Technology Perspective" that:

> ***"Heating and cooling remain neglected areas of energy policy and technology, but their decarbonisation is a fundamental element towards a low carbon economy".***

Hence, EFIEES calls on the European Commission to include heating and cooling in its future climate/energy pathways, taking into account the potential of this sector to address all climate/energy targets (energy efficiency, decarbonisation, and renewables).

1 EFIEES has been already pointing out this problem e.g. in its contribution to the public consultation on structural options to strengthen the EU Emissions Trading System sent to the European Commission on the 28th of February 2013.
2Energy Efficiency Plan, European Commission, 2011, p. 6
3 Source: Euroheat and Power

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⇒ **The future vision for heat and heating has to be based on robust statistics at the EU level reflecting the energy sources and uses of heating and cooling by types of users and sectors.**

5. Need to accommodate local conditions to reduce energy consumption, CO2 emissions and energy prices for EU citizens

Energy prices on internal market (gas, electricity) are converging more quickly than the population's purchasing power across the different countries among Europe. This has been already creating tensions in some MS like in Bulgaria where electricity prices caused protests and political consequences.

Unlike gas and electricity, **heat market is local**. This local market is nevertheless impacted by energy prices when depending on the internal market. It is crucial for households' energy costs to be as much as possible connected to the economic standard of living of each country.

Heat market should thus use mostly locally available energies (geothermal, biomass, coal, gas, waste heat…) with prices mainly linked to local labour costs. To that extent, the concept of internal market, with primary energy producers selling to the countries with the most interesting prices, should be conditioned to the extra energy consumption and CO2 emission due to the transportation fully taken into account, which is currently not the case.

In terms of energy efficiency and CO2 emissions, the EU policy is focusing mainly on CO2 emissions from the combustion. It brings false basis for comparison between energies coming from long distances (biomass importation or long-distance gas), using a lot of energy for their transformation (pellets) with locally produced primary energy (for example geothermal, biomass, coal etc.) **For all sources of energy the assessment of CO2 content along the whole energy chain from extraction to final use including transportation, production and distribution should be made.**

⇒ **The 2030 energy policy should promote a "fair" internal market where local markets should benefit from energy at local prices. This might be obtained through regulation or by putting a price on environmental distortive impacts to avoid any distortion between energy prices and purchasing power, promote a local use of energy for heating and cooling sector and guarantee affordability of energy for citizens.**

1.2. Targets

Q: Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?

The objectives of the EU Energy and Climate policies are: reducing greenhouse gas emissions, securing energy supply and supporting growth, competitiveness and jobs through a high technology, cost efficient approach.[4]

[4] « Questions and anwers: Green Paper on 2030 framework on climate and energy policies", European Commission, 27.03.2013

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a) Energy efficiency has a potential to address all EU climate/energy objectives:

- 1. Improving energy efficiency by 20% => consumption of fossil fuels decreases from 100 units of energy consumption to 80 units.
- 2. Increasing to 20% of renewable in the energy mix => consumption of fossil fuels decreases from 80 to 64 units

=> Consumption of fossil fuels reduced by 36 units (EE + RES), instead of 20 units with RES-only

=> Lower investment costs in transition towards RES based on lower RES consumption of 16 units instead of 20 units.

In order to make energy efficiency happen, the EU needs a **binding energy efficiency target** taking into account the following principles:

⇒ ***A binding energy efficiency target is key to the success of the two other pillars*** (CO2, renewables) of the EU energy/climate policy. Energy efficiency gains reduce CO2 emissions, and, by reducing the quantity of energy needed along the energy chain, reduce the efforts and investments requested for the transition towards renewable energy. Renewable energy is not "unlimited" nor "for free", e.g. biomass. In cases where the energy input seems unlimited (solar, wind energy, geothermal energy, etc.) new investments in infrastructure for production, transformation, and transport/use imply high costs. Optimising their development is one of the challenges of "decarbonisation".

⇒ **Binding energy efficiency target could be derived from an energy intensity assessment based on primary energy assessment**

It seems that there is no need to set an absolute level of primary energy consumption. Instead, energy intensity could be a solution (primary energy consumption/expected results), however applied differently for industry and buildings sectors. For industry primary energy consumption should be compared to the GDP and for buildings (both commercial and residential) it should be compared to the heated surface and the climate. More specifically, regarding buildings, efficiency could be expressed in quantity of primary energy used per m2 heated and per degree-day. As living standards differ from one country to another (15 m2 per person in Bulgaria compared to over 50 m2 in Denmark), binding targets must not prevent an increase of the surface per capita in the long term.

This energy intensity must reflect two complementary requirements. On the one hand, **buildings performance**, which requires information on the end-use energy actually consumed within the building and not just the final energy consumed at its entrance. This would require access to **precise statistical data on energy consumption per building floor area**. And, on the other hand, **energy efficiency for the entire chain**, which would require assessment based on primary energy (consistent with Energy Performance of Buildings Directive 2010/31/EU).

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b) Target on CO2 emissions reduction

Despite the fact that GHG approach is cost-effective, which we strongly support, a "GHG-only approach" would not cover the entire energy challenges in the most cost-efficient way.

- Many sectors are not covered by the EU ETS and national measures taken on the basis of the Regulation on "burden sharing" have proven to be insufficient: e.g. transport, individual heating etc.

- Energy efficiency improvement in buildings is neither covered by the EU ETS;

- External carbon leakage is another issue not well addressed by the EU ETS;

- Switching from fossil fuels to renewables is a CO2 reduction measure, but energy efficiency gains should be made in priority/in combination in order to reduce efforts necessary for energy transition towards renewables (e.g. less biomass needed for DH after fuel switching + EE efforts);

- The CO2-only approach is not sufficient to reduce CO2 emissions in certain cases. For example in collective housing, the ETS-only approach is not a sufficient incentive to improve the insulation, because the price signal is not enough to make investments in refurbishment. This is why energy efficiency is necessary and energy efficiency services companies (ESCOs) play an important role in lowering CO2 emissions reductions by energy efficiency actions tailored to specific cases like collective housing.

- ETS is supposed to incentivise investments for reducing CO2 emissions by providing a price signal to the CO2 emitters. This does not really work for DHC since they compete with non-ETS heating solutions that prevent them from implementing usual mechanisms of passing-through of CO2 costs that allow, for other sectors, to "prime the pump" and finance investments for reducing CO2 emissions.

c) The future EU policy for renewable energy should allow cost-effectiveness and a fair remuneration of infrastructures.

The future EU policy for renewables should:

a) Assure the **co-existence of intermittent and flexible systems of production**, at least until storage technology and smart grids reach maturity, with infrastructures producing energy for permanent demand, e.g. cogeneration plants (the latter are currently weakened since their investment costs are no longer covered in case of priority purchase of electricity from renewable origin)

b) **Prioritise mature and flexible technologies;**

c) Focus on **implementing renewables in heating sector** consisting in promoting and using **local biomass sources**, which create jobs over the lifetime of the plant and contribute to securing energy supply.

   - **The quantity of biomass required to decarbonise one MWh of heat is the third that as for one MWh of electricity.**

⇒ **Burden sharing between policies and economic areas should be based on cost efficiency**

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Generally, the cost efficient approach should be the one guiding the process of choosing the options to fulfil the targets. For example, when renewables for heating are less expensive in terms of total costs comparing to renewables for electricity, whereas both options bring the same amount of CO2 reductions, the cost efficient approach should be a basis for comparison.

Q: Have there been inconsistences in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

⇒ **There is no inconsistency in having 3 targets (energy efficiency, renewables, CO2), on the contrary:**

- An energy efficiency target contributes to reducing CO2 emissions, in particular in the sectors that are not covered by EU ETS, and reduces the energy demand which facilitates the transition towards renewable energy;
- A CO2 target contributes to the transition towards renewable energies, since it incentivises investments in renewable energy in District Heating;
- When it comes to implementation, there can be inconsistency between energy efficiency and renewable energy. In cases where efficiency factor of RES is more pronounced than the efficiency factor of fossil fuels, how to avoid that "more renewable may mean less energy efficiency"? This can be solved by **1. Taking priority energy action measures that will reduce energy demand, 2. Use a market-based approach & CBA for the implementation of the renewable target**, in order to help to optimise energy and economic efficiency;

⇒ **Main inconsistency/loophole within the EU ETS: the problem of "internal carbon leakage"**

- Small heating installations (less than 20 MW) should be covered by the EU ETS in order to avoid more CO2 emissions. Primary energy retailers to non-EU ETS clients should be in the scope of the EU ETS.

Q: Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO2 reductions for passenger cars and light commercial vehicles?

For all sectors, including transport, energy efficiency should be considered *first*; with renewables to come once consumption needs have been reduced. Implementation of all targets should be based on market-driven and cost-benefit approach.

Q: How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

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Targets should reflect **robust and efficiency proven technologies** with the perspective of their further deployment and not *only* prospective scenarios, general or more specific ones. New technologies under development should be supported by other means.

Maturity of technologies has an impact on affordability of energy for consumers. For example, even if the price of electricity on the wholesale market falls, the impact will not be felt by the final consumer for whom the price of electricity continues to rise. **Because the renewable technologies for electricity are far from being mature, the significant additional cost involved in their implementation is often passed on by MS in the sales price to the end consumer.**

Non-mature and non-proven technologies should not necessarily be prioritised. A right balance must be found between new technologies (to be supported despite higher costs on short term) and mature ones, which are already cost-effective.

Heating and cooling sector represents 47% of final consumption at the European level (buildings consume twice as much heat as electricity) and draws on mature and flexible technology. As such, there should be a focus on **promoting and using local biomass sources**, which create **local jobs over the lifetime of the plant** (in terms of biomass provision and management of the plant) and contribute to **securing energy supply. This focus should mainly be in the heat sector as the quantity of biomass required to decarbonise one MWh of heat accounts for one third of that for one MWh of electricity.**

Q: How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

Security of supply' is one of the objectives of energy and climate policy where adequate targets should contribute towards achieving the EU policy goals. The most straightforward way to address this objective consists in increasing energy efficiency. Hence, security of supply has to be rated in terms of **energy efficiency levels**. In order to properly measure energy performance, this assessment should be based on primary energy. Only primary energy enables the measurement of the overall consumption along the entire energy chain.

1.3. Instruments

Q: Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

In order to implement the current and future climate/energy targets, other policy instruments should be in line with them. Unfortunately, there are still several barriers to deployment of energy efficient and /or renewable technologies and services, which contribute to CO2 reduction:

⇒ **Regulated heat prices** in some Member States result in situations where customers are not encouraged to save energy, as the energy prices are kept at artificially low level. Therefore, customers are neither interested in purchasing energy efficient technologies nor in engaging the services to install them. Energy producers are neither incentivised to save energy, nor to produce less energy, as their revenues are based on a "cost + fee" system.

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⇒ As far as other regulatory obstacles are concerned, other outstanding issues being **public accountancy rules** need to be mentioned. A strict division between capital and operational expenditures on the public accounts results in such situation where only operational expenses reflect the benefits of the investment in energy efficiency. Additionally, investments in energy efficiency bring profits usually after a few years following the investment which may occur under the next election term. These factors discourage public authorities to invest in energy efficiency projects.

⇒ **Public procurement rules** and mainly the application of split tenders instead of overall energy efficiency service contracts are not favourable to energy efficiency. Split tenders may lead to lock in effects that reduce financial resources to a ratio 1 project/loan.5

⇒ Innovative energy efficiency solutions could also be applied more widely if public authorities use more often **public-private partnerships (PPPs)**, which is not always a case due to a complicated regulatory framework and a lack of experience on the part of many public authorities. At the same time, **discriminations between PPPs and pure public projects** at the national level in the implementation of Cohesion Fund should be deleted.

⇒ The **national VAT rules** should not be discriminatory (which is the current situation in several Member States) towards energy efficiency and heat from renewables. On the contrary, they should promote investments in full refurbishment of the building energy systems as well as the building envelope in order to reduce specific energy demand (fuel/gas consumption) - and consequently environmental benefits (renewables, energy efficiency) where the high investment costs are compensated partially by reduced VAT.[6] .Further, adapted VAT rules can be considered, in absence of any other policy measure exists, as the unique mechanism able to promote heat from renewable in District Heating and Cooling networks.

⇒ Interpretation of the **Eurostat rules on public debt and deficit** which count investments in energy efficiency by energy services companies as deficit which impedes the investment by public authorities in energy efficiency measures have to be modified; otherwise the implementation of the Energy Efficiency Directive (2012/27/EU) will be substantially hindered.

⇒ **Recovered heat** should be classified as renewables under national and the EU legislation as it is a valuable energy resource for District Heating and Cooling which otherwise would be wasted. At present around 82% of district heat in the EU is derived from sources of surplus heat.[7]

Q: How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

[5] This should be taken into consideration in the context of current discussions on a proposal for a Directive on Public Procurement which involve options that public authorities should state reasons when not dividing large contracts into lots or MS to decide whether to make a division obligatory with possible exemptions.

6 A detailed description of detrimental VAT rules to energy efficiency and renewables in heating and cooling was covered by EFIEES in its contribution to the public consultation on the "Review of existing legislation on VAT reduced rates" sent to the European Commission on 15 January 2013.

[7] « District Heating and Cooling », DHC+ Technology Platform, March 2012, p.11

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The assessment of cost-effectiveness should be done **at the local level**, where the availability of already existing and accessible energy sources should be put in perspective with their environmental impact. Solutions for heating systems should not be decided at the central level.

Another indicator is the **value of primary energy consumption** which reflects the ratio of output of performance, service, goods or energy, to input of energy, showing energy savings and losses along the entire energy chain.

Q: How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?

Investments in heating and cooling sector do not lead to the fragmentation of the internal energy market; it is common sense to privilege local factors, e.g. local energy resources in case they have a better CO2 performance, taking into account extraction and transport costs. Heat should not be decoupled from those local factors, which implies an adequate correlation to local standard of life and affordable prices for households.

Q: Which measures could be envisaged to make further energy savings most cost-effectively?

In order to enhance energy savings most effectively, further **deployment of energy efficiency services** which offer cost-effective solutions to end-users should be continued. Equipment-only measures, without (long-term) service or maintenance, are proven to be less energy efficient.

Particularly, **development of overall, multi-task energy efficiency contracts including Energy Performance Contracting** is a way forward to reach considerable amount of energy savings and to avoid lock-in effects.

Q: How can EU research and innovation policies best support the achievement of the 2030 framework?

Research and innovation policies should focus on technologies promoting energy efficiency and take into account the following principles and needs:

1. **Minimising primary energy consumption**
   ⇒ Reducing primary energy consumption is the foremost requirement for attaining the EU energy policy objectives.
2. **Enhanced use of biomass and recovered heat particularly in the context of CHP plants**
   ⇒ With a view to bring better results in terms of primary energy use for simultaneous power and heat production and to support local energy sources.
3. **Reduction of thermal losses**
   ⇒ While the access to affordable heating in the EU is becoming a crucial matter, a significant potential of **energy efficiency in housing, power plants and networks should be fully exploited.**

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4. **Research on low-temperature heating networks** leading to more flexible and efficient energy systems
5. **Research on future needs for heating and cooling** in the perspective of climate change
6. **Energy efficiency actions leading to nearly-zero energy quarters**
   ⇒ The technological progress should contribute to technology improvement leading towards the transition to nearly-zero energy buildings in line with Energy Performance of Buildings Directive (2010/31/EU) regarded as quarters rather than individual buildings

1.4. Competitiveness and security of supply

Q: Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?

Energy efficiency is a driver for **local jobs creation, growth and competitiveness**. A local approach towards energy systems should be applied when planning for energy and **priority should be given to non-intermittent production of heat with renewable energies** (biomass, geothermal energy), which brings local employment and local resources. In this context, efficient District Heating and Cooling as a system using local heat and cold resources and infrastructure, having an adaptable energy-mix, should be further developed.

Further, appropriateness of costs for **non-intermittent demand** should be considered and compared with **intermittent renewable solutions** that need alternative energy infrastructure, in order to cover times where there is no sun, no wind etc.

Q: What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?

A CO2 tax levied at borders based on the energy content should be could be examined, technically and politically, while waiting for an expansion of the CO2 commitment to countries outside the EU.

As mentioned above, a solution to the "internal energy leakage" is that **retailers of primary energy to non-EU ETS consumers** of the "diffuse sector" **should be covered by the EU ETS.**

Q: What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

EU policy should better take into consideration **stranded costs**, and not encourage the measures that increase them. The EU should give priority to a **global costs approach** for supplying energy corresponding to ***permanent demand***. Some RES solutions, such as wind, solar-based ones, are not able to respond to permanent energy demand, and need the deployment of a double energy infrastructure whose costs have to be integrated in a global costs approach.

The EU should focus on increasing energy efficiency which has a potential to contribute to reversing current trends in energy prices and costs which was recognised by the European Council on 22 May 2013.

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Q: How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?

As mentioned above, a CO2 tax levied at borders based on the energy content could be considered as a solution while waiting for an expansion of the CO2 commitment to countries outside the EU.

Q: How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?

Visibility should be increased for industries and for their investments. In line with the latter, in case of a revision of the regulation **conditions granted to existing installations should be maintained**.

Duration of the political cycle which may last a very short time, for example only 2 years, should not influence a duration of investment aid for installations which requires more time and may be programmed for example for 15 years.

Q: How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?

In order to reinforce the system of lowering the EU carbon footprint, European Commission should issue the **guidelines on how the revenues from auctioning should be invested by the Member States**. These guidelines should place a strong focus on investment in energy efficiency and renewables since they contribute to decarbonisation. Concerning heat production and distribution, it is necessary to address the untapped potential of carbon savings, through efficiency increase (including efficient cogeneration) and fuel switching - particularly promoting the use of renewable sources of energy. These investments are especially important in Member States where energy efficiency will also contribute to combat energy poverty, but where investments in CO2 reduction are not always affordable – a problem that particularly concerns heat customers in Eastern Member States.

Q: How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?

The EU should focus on the promotion of heat from local renewable energies (geothermal, biomass) and recovered heat (see answers above).

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Q: How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?

As for the heat sector, security of supply should be strengthened by developing **efficient, renewable energy and recovered heat**, which are locally available energy sources.

Since heat is based on local markets, **heat costs are based on local inputs**, and consequently on local price factors that help to match the heat prices with the income level of the local consumers. In this context, the "internal energy market" should take into consideration inequalities in revenues of customers in the EU and favour energy sources that are most adequate to the local economies. At the same time, more attention should be given to "fuel poverty", which would not be tackled either by "internal market" considerations.

1.5. Capacity and distributional aspects

Q: How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?

Q: What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?

The idea of a "burden sharing" between MS for energy efficiency seems reasonable, due the large differences between national performances. The Cohesion Fund should be in line with this principle and support regions facing substantial challenges in this area, for example to refurbish existing District Heating and Cooling networks.

Q: Are new financing instruments or arrangements required to support the new 2030 framework?

Cohesion Policy by the means of Cohesion Fund and European Regional Development Fund in the next Multiannual Financial Framework (2014-2020) focuses for the first time in a considerable part on **energy efficiency together with the use of renewable energy**.

In this context, the development of the **use of renewables (biomass) in District Heating** should not be forgotten. **Renewable and efficient DHC** should have an access to Cohesion founds as well as financing **green certificates schemes in DHC networks. The financing needs for renovations of DHC networks in several MS with a focus on heat losses are substantial.**

Regional and local administration should be supported to facilitate the absorption of structural investment funds in these areas. While the access to affordable heating in some of the EU's societies is becoming a crucial matter, the possibilities to fund high efficiency District Heating and Cooling and combined heat and power plants with the use of Cohesion Funds create an opportunity for national and local authorities **to reduce heat losses in the times when energy becomes more expensive**. Energy efficiency in housing,

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power plants and networks has an enormous potential contribute to the reduction of overall energy consumption.

⇒ We suggest incentives for MS that make best use of Cohesion funds for energy efficiency actions, as well as sanctions for the ones who do not introduce projects in this field.

New financial tools such as financing guarantees available for wider groups of customers of energy efficiency services companies (EESCs) should be developed.

Current financial mechanisms for energy efficiency should be extended for the period after 2020 as they need continuation especially in the context of not being "on track" to achieve the EU 2020 energy efficiency target.

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