

EPBD IN SUPPORT OF THE UPTAKE OF ON-BILL SCHEMES IN THE EU



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POLICY BRIEFING

In December 2021 the European Commission published its proposal for revising the most important piece of EU legislation dealing with building performance – the Energy Performance of Buildings Directive (EPBD). The revision had initially been planned for 01 January 2026 at latest but was developed much earlier with the aim of aligning building legislation with the Renovation Wave.¹

The EPBD recast proposal echoes recent EU efforts for achieving climate neutrality by 2050. The proposal emphasises different but crucial components for reaching these targets, such as the need for higher building renovation rates, resilient and accessible buildings stock, improved air quality, and innovative financing for building renovation.

All of these suggest very positive expectations from the EPBD recast when it comes to the uptake of on-bill schemes in the EU. For example, Article 15 of the proposed EPBD recast mentions on-bill schemes as one of the financial tools important for mobilising energy renovation investments in the EU. However, there is still lots of room for improving and strengthening the support the new EPBD can provide to on-bill schemes. Given the proximity of EU 2030 climate targets, as well as the growing importance of reducing the EU's energy dependence, the EPBD recast is a chance that should not be missed.

Purpose of the paper



By focusing on several important results of the RenOnBill project,² in particular the research on its target country markets (Germany, Italy, Lithuania, Spain), this paper analyses and explains how the proposed EPBD recast can support the uptake of on-bill schemes in the EU. In addition, the paper explains potential adjustments to the proposed EPBD recast that may support on-bill schemes even further and speed up their conversion to a powerful tool for fighting climate change and reaching the EU climate goals.

¹ Announced in October 2020

² <https://www.renonbill.eu>

ON-BILL SCHEME CHALLENGES IN RENONBILL FOCUS COUNTRIES



Low demand for renovation among homeowners

An important result of RenOnBill research in the focus countries, as explained in the national roadmaps for on-bill replication, is that low demand for renovation among homeowners is one of the dominant barriers for their uptake. Such low demand may be due to several reasons.

One of the most important reasons is a low financial attractiveness of energy renovation projects and inadequate public support. Research in the target country markets suggests governmental support may be either insufficient or not properly designed to trigger enough demand for renovation among potential end-users. For instance, if designed to support deep renovation only, governmental support programmes may miss an important part of the market not ready to engage in capital-intensive deep renovation. Other important reasons for low demand for renovation may include mild climates in some parts of Europe, the complexity of the application process for public support measures, or complex decision-making processes in multifamily buildings.

The abundance of reasons for low demand for renovation makes this issue complex and difficult to resolve. Important components to enable EU uptake of on-bill schemes include strengthened renovation requirements and standards, and providing greater financial support from public sources to make energy renovation more financially attractive.



Lack of financing incentives

Several examples from focus countries also suggest that on-bill scheme implementation is still missing a proper understanding of energy renovation financing from the side of the commercial market players – financial institutions and utility companies.

For instance, in their financing decisions, some banks still perceive renovation loans, such as those needed for financing on-bill schemes, as consumer loans. This means that a loan decision is mostly based on the homeowner's credit profile, overlooking other aspects such as energy and monetary savings from renovation projects. As a result, financing terms tend to be similar to those used for consumer loans, which may be expensive for on-bill schemes.

RenOnBill research also revealed that some utilities still prefer to stick to their core business activities and are not ready to explore and commit themselves to energy renovation investments, such as on-bill schemes. Although there may be different motives for such business strategies, one of the most important reasons is the lack of clear financial incentives for utility companies.

POTENTIAL POLICY SOLUTIONS



Introducing mortgage portfolio standards (EU and national level)

The portfolio standard approach is a proven regulatory tool already deployed for reducing the environmental impacts of transport and renewable energy sectors. Mortgage portfolio standards could promote investments in energy efficient buildings from the side of financial institutions by requiring that their mortgage portfolios are in line with the targets of the Paris Agreement.

By addressing interests and the usual practice of mortgage lenders, mortgage portfolio standards could be a strong driver for increasing energy renovation activities and on-bill scheme financing. A mortgage portfolio standard is a relatively new term in the European context, included in the current 2021 EPBD recast proposal.

If implemented properly at both EU and national level, for instance by national financial authorities, mortgage portfolio standards could generate a need for investing in energy renovation. In the case of financial institutions this would imply a shift in business strategy and a new approach to energy lending – such as designing loans and loan approval practices that focus on different aspects of energy renovation investments. Equally, to be able to approve a housing loan, banks could get in touch with a utility company and propose to finance on-bill renovation, generating interest among utilities as well.



Improving the minimum energy performance standards framework (EU level)

Low building renovation rates around the EU, especially for deep renovation, are a well-known obstacle on the way to EU climate targets. To tackle this issue, the European Commission proposed including in the EPBD recast a framework for minimum energy performance standards that would require buildings to meet certain energy performance levels by a certain date or at a specific point in the building's life. Minimum energy performance standards are considered to be a continuation of existing minimum standards such as nearly zero energy buildings, but applied to existing buildings (while the nearly zero energy building standard applies to new construction).

Minimum energy performance standards could be a powerful tool for supporting on-bill uptake by increasing the demand for energy renovation. For instance, the EPBD proposal from 2021 requires Member States to ensure that residential buildings must have at least energy performance class F by 2030 and class E by 2033,³ and also foresees a reform of the energy performance certificate performance classes. Both of these would result in a significant renovation rate increase where the worst-performing 15% of national building stocks should be renovated in the next 10 years.⁴

³ Publicly owned and non-residential buildings should reach class F by 2027 and class E by 2030.

⁴ Class G corresponds to the 15% worst-performing buildings in the national building stock.

Although proposed minimum energy performance standards can be a very strong enabling factor for on-bill uptake, the ongoing EPBD recast is a perfect opportunity for making these standards even more supportive. In addition to targeting increased renovation rates, minimum energy performance standards could target the renovation depth by immediately introducing provisions for buildings in energy performance class E and above and outlining a path for all buildings to be transformed into zero-emission buildings by 2050. In addition, EU level on-bill support could be increased by coordinated use in the minimum energy performance standards framework of renovation trigger points, such as selling or renting an apartment or building.



Increased focus on financial assistance

To stimulate the necessary investments in energy renovation programmes, the EPBD recast proposal requires Member States to provide different financing solutions for this purpose. Such solutions may include loans for building renovation, on-bill schemes, or investment funds with targeted energy savings. At the same time, it suggests making the most cost-effective use of such solutions, as well as introducing innovative financing tools.

Financial assistance suggested in the EPBD recast proposal could be a very strong step towards the uptake of on-bill schemes. The proposed EPBD recast mentions different solutions that can support the idea of specialised on-bill funds used to support national or regional uptake of on-bill schemes. Such on-bill designated funds could be used for different purposes, including grants or soft loans to end-users or on-bill guarantee funds that would reduce risks perceived by commercial lenders. All of these would aim at increasing the financial soundness of on-bill schemes for different project participants, significantly stimulating their introduction.

The proposed EPBD recast would be improved by including certain ideas beneficial for on-bill and other energy renovation investment schemes in the EU. For instance, allocations under financing sources should be more clearly linked to building renovations, avoiding their extensive use for other purposes. Also, subsidy schemes established by Member States should be linked to the EU's long-term goals and reaching climate neutrality by 2050. On-bill and other energy renovation programmes could significantly benefit from connecting such financial help with stronger requirements for energy demand reduction and renewable energy share.

CONCLUSION

The recently published proposal on the EPBD recast is a great opportunity for reshaping the EU's efforts toward its decarbonisation goals. On-bill schemes have been already recognised in the proposed EPBD recast as one of the financial tools important for mobilising energy renovation investments, but their successful uptake may require more provisions to be introduced at both EU and national level. Building on market research in its target countries (Germany, Italy, Lithuania, Spain), RenOnBill suggests the following updates:



An effective implementation of mortgage portfolio standards, that can support demand for energy renovation and result in a business strategy shift for financial institutions.



Strengthened minimum energy performance standards, including provisions for buildings in energy performance class E and above as well as outlining a pathway beyond 2030/2033 up to 2050.



Financial assistance to establish specialised national or regional on-bill funds. To support this idea even more, the EPBD recast could require that clear and ambitious energy demand reduction and renewable energy targets are conditions for receiving financial support from these specialised funds.



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