

Position paper

Brussels, June 2015

Energy Cities' position on the Smart Cities Agenda



Transparency register number: 11514322965-05

Cities are at the core of the energy transition, supporting national and European policies, driving investment in energy efficiency and providing the framework for the installation of local renewable energy capacity. To go on with the energy transition and achieve its objective of a 80% reduction in GHG emissions by 2050, the European Union should help cities stay in the driver's seat. The European Commission is willing to further engage with cities, putting forward measures to increase their impact on, among others, emissions mitigation. **This is encompassed in the desire to reshape the way it addresses these issues in a so-called "Smart Cities Agenda"**. This initiative is based on a streamlining of existing EU initiatives geared towards cities to simplify them and improve their reach and their effect.

The European Commission's proposal for engaging cities needs to reconsider the current relationship between cities and the European institutions. This goes through a **simplified European support framework for cities' climate and energy actions**. The EU indeed needs to provide **more readability, accessibility and user friendliness to cities**. It is however **crucial that the EU stops viewing cities as a mere consumers of policies**. This streamlining is a great opportunity to develop a better approach to cities engaging in the energy transition, and in this regard could and should be structured around the following priorities:

- Shifting governance structures to include local authorities at a political level so that they can participate in shaping Europe's energy and climate policies, and take ownership of a decentralised decarbonised energy system;
- Developing a perspective which is not exclusively focused on hardware infrastructure and technologies. There is a need to take into account the societal changes that are already happening, supported by local authorities and to foster the local energy transition;
- Including cities of all sizes in support programmes, and not only major municipalities, in order to widespread local emission-reduction solutions that are quite often beyond the experimentation phase;
- Tackling the issue of the lack of internal capacity and the difficulty to access financing, particularly for small and medium-sized cities, to bridge the investment gap at city level.

A governance shift to include cities

European climate and energy policy are primarily shaped by the Member States in the European Council. Meanwhile, **cities are developing a more ambitious agenda to mitigate climate change**. They notably see the potential of decarbonisation for local economic growth and job creation and a better quality of life. For instance, **the over 6,300 signatories of the Covenant of Mayors all voluntarily committed to an average 28% emission reduction target by 2020¹** – some cities even planning to go carbon free by 2050. **These commitments are backed by strong Sustainable Energy Action Plans (SEAPs) and monitoring**. Although they have a great deal of recognition at national and European levels for their role in implementing energy efficiency and renewable energy policies, cities should also take part in the development of these policies. **Cities are ideally placed to shape the long term vision of the social and economic future of their territories the energy transition needs**.

Beyond their capacity to think long term, *via* **cities** local players **are taking ownership of the energy system** and the EU should accompany them in this process. **Decarbonising Europe implies a more decentralised energy system, reduced energy consumption and large share of locally-generated renewable energy**. An example of this trend is the rapid development of municipal and local energy companies in Europe to provide low-carbon, affordable energy. This trend is particularly strong in Germany – where *stadtwerke*² are key drivers of the *energiewende*³, producing 12% of Germany's electricity and providing 46% of retail electricity⁴. It is also spreading to other Member States such as the UK, where Bristol is set to open the first municipal energy company of the country (thanks to the support of the EU's ELENA programme) and is followed by many others. This involvement of cities in the energy transition is not neutral: it **creates local jobs that boost local economy**.

More generally, **the multiplication of players in the energy system** - from citizen-producers of energy, to digital services or energy cooperatives - **will make the issue of governing this system more complex**. Cities, by their

¹ See [Joint Research Center](#). *The Covenant of Mayors in Figures and Performance Indicators: 6-years assessment*. 2015

² Municipal energy companies

³ Energy transition

⁴ [Clean Energy Wire](#), *Small, but powerful – Germany's municipal utilities*, February 2015

proximity to citizens and their involvement in the energy sector as a consumer and a potential producer and supplier, can **serve as a moderating authority to ensure that the best service is provided to all**.

Local authorities need recognition of this role from the European Union. They should be **more included in management of energy, digital or water**. There are for instance tremendous synergies to be found between fostering the local energy transition and the digital single market, notably on the field of coverage and public services to citizens. Synergies also exist in terms of growth of the digital economy, as companies in this area are likely to thrive and create job by accompanying the cities in energy transition. Their involvement is key to ensure that all European citizens benefit from a proper coverage, and **they need to be able to intervene directly to develop infrastructure for communities that are left aside by market failures**. Through the Smart Cities Agenda, the European Union can make sure that the right of cities to intervene for the improvement of the service and the decarbonisation of the energy system is guaranteed.

Taking societal changes into account for a successful energy transition

The European Union has been providing local authorities with robust tools to help them engage in the energy transition. These tools, such as the Smart Cities and Communities programme, notably emphasise the hardware dimension of the decarbonisation process, rolling up smart infrastructure and low-carbon technologies. The opportunity that such mechanisms represent **to develop innovative technologies is key to meeting the EU's decarbonisation objectives**. However, **the energy transition also entails societal changes which greatly affect energy demand** – for instance in the transport, building or waste sectors. **Initiatives that solely care about technologies are risking excluding the most vulnerable members of the society**. For instance, newly-built or retrofitted smart buildings may exclude poorer populations because of higher sales or rental prices⁵. Cities are crucial for preventing such issues, and the ITRE Committee of the European Parliament underlined their relevance in its report entitled *Mapping Smart Cities*⁶. Cities can notably engage with stakeholders or act through their investment programmes.

A successful streamlining of the EU initiatives for supporting cities in energy transition must include the societal dimension of the energy transition. While we do need to improve the hardware of our cities, a good support framework for cities also has to cover the upgrade of the software part. This means providing cities with means to engage citizens and local players, by sharing experience on innovative societal models related to optimising the benefits of mitigation actions. **Entities such as energy cooperatives show the dynamism of the local level in terms of societal changes**. Through them, citizens are empowered as “prosumers”, able to scale up local renewable energy sources and structure low-carbon behaviours in cities. EU initiatives for cities should be able to work on the basis of this pre-existing pool of societal innovation that considers the specificities of each territory. At any rate **the EU should not impose a top-down model exclusively based on a technological approach of the energy transition in cities**. In this regard, we are sceptical towards the relevance of the term “smart cities” as name of the umbrella initiative for cities engaged in climate action. Indeed, as defined by the European Parliament in its report *Mapping Smart Cities*, this term defines “a city seeking to address public issues via ICT-based solutions on the basis of a multi-stakeholder, municipally-based partnership”. This therefore ignores cities engaging in the energy transition with an approach focused on societal transformation.

A widespread access to EU initiatives for local and regional authorities of all sizes

The members of Energy Cities are enthusiast and willing to work with the Commission for developing and implementing the EU's climate and energy policies. This good will of European cities is illustrated by the success of initiatives such as the ELENA facilities. ELENA provides a **small but significant push that cities need to launch ambitious investment programmes with long-term effects on their internal capacity**. For instance the ELENA-EIB programme undertaken by the Brussels-Capital Region aims at **deeply reshaping how it conducts social housing projects** by systematically integrating renewable energy production in the buildings.

The huge success of the Covenant of Mayors is another evidence of the willingness of cities of all sizes to directly engage with the European Union: **signatories of the Covenant committed on average to a 28% decrease in their GHG emissions by 2020**. This corresponds to the equivalent of 15% of the overall amount of reduction of emissions that the European Union needs to achieve its own 2020 target. The engagement of Covenant

⁵ “Green buildings” are indeed source of an increase in value (green value of buildings). Energy Cities, *Economic impact of the energy transition at the local level*, 2014.

⁶ ITRE. *Mapping Smart cities*. 2014

signatory cities is translated in their Sustainable Energy Action Plans (SEAPs) that include every sector, particularly buildings, local energy production and transports. **The impact of an initiative like the Covenant of Mayors is particularly strong from a political point of view.** The voluntary commitment mayors make gives their administrations **more momentum when starting investment projects** listed in the SEAPs. It also **creates a new dynamic in terms of local governance** that can reshape around the long-term objectives and societal transformation they suppose.

Yet, cities - particularly small and medium-sized - still need the EU's support for capacity building, access to financing and exchange of experience.

Easier access to EU initiatives for cities implies **simplifying the application processes to these initiatives**, particularly when it comes to capacity-building mechanisms.

Bridging the investment gap at city level: capacity-building and access to financing

The **main barrier identified by our members to implementing their investment projects is insufficient internal capacity**, which is particularly prevalent for small and medium-sized cities. Other barriers faced by our member cities include the **high cost of private financing** - notably in Southern and Eastern Europe, **non-functioning ESCO markets and debt accounting**. These are issues the European Union can and should address in its revamped set of initiatives for assisting cities in energy transition.

Capacity-building

Initiatives such as the Covenant of Mayors, URBACT and so on, are key options that offer capacity-building and provide opportunities to exchange experience. Projects such as INFINITE Solutions⁷ fostering peer-to-peer and bottom-up development of innovative financing mechanisms for energy efficiency and local energy production are key for local authorities in energy transition and should be further supported. Besides, technical assistance programmes such as ELENA, MLEI or EEEF provide tremendous help to local authorities and allow them to develop a long-term capacity for implementing energy efficiency and renewable energy projects.

Cities are ambitious in their investment plans for reducing their emissions and improving the urban environment. However, they often lack the technical or financial ability to propose investment projects robust enough to attract private investors. They may also lack the ability to navigate the complex rules that define ESCO markets. To prevent that, **the EU can further democratise its technical and project development programmes to small and medium-sized cities and increase the readability between the different facilities.** Capacity-building may also be dramatically enhanced by more accessible experience-sharing platforms. Moreover, **the EU could promote local relays of technical assistance** –towards local energy agencies for instance – in order to accompany the decentralised energy transition in accordance with the specificities of the territories.

Access to financing

In terms of access to financing, for a number of our members experiencing difficulties related to the cost of private financing, **the approach followed in the Juncker Plan could yield positive results at the city level.** However, while cities very often have large investment projects, they still need facilities to help them **create a critical mass of investment in local renewable energy sources and energy efficiency.** This critical mass is crucial to dilute the perceived risk, create a market and attract private investors. And the EU is the right level to establish such an aggregating facility for risk reduction in its revamped set of initiatives for cities in energy transition.

Contact

Claire Roumet, Energy Cities, Executive Director
Tel: +32 2 504 78 63
E-mail: claire.roumet@energy-cities.eu

Transparency register number: 11514322965-05

⁷ See www.energy-cities.eu/infinitesolutions