



March 2019

Public consultation on the European Investment Bank Energy Lending Policy: Energy Cities' response

General Questions

1. Do paragraphs 15-27 above provide a reasonable characterisation of the long term energy transformation? Are there additional dimensions that the Bank should consider when reviewing its Energy Lending Policy?

- The EIB should take more into account the **key role of local authorities**.
- The EIB should **divest from all fossil fuels projects, including gas**.
- The Bank should **focus more in its energy lending policy on sustainable heating and cooling systems**.

The EIB should highlight the **key role of local authorities** for implementing the necessary long-term energy and climate transformations. As such, it should **include them in point 18** (*“Energy consumers and citizens will be at the centre of the energy transformation. The significant investments required, the evolution of energy prices, the type and location of activities needed will have long-term economic and social impacts. The transition will spur innovation, create growth and jobs in new sectors. In order to be socially acceptable, these impacts will need to remain fair across regions, across society.”*). Local authorities are spearheading the Paris-proof energy transition and this should be reflected appropriately in the reviewed EIB energy lending policy, in particular by **providing European local authorities with fast-track access to EIB funding under favourable investment conditions**.

As an overarching principle in its energy lending policy, the EIB should from now on **completely divest from all fossil fuels projects, including gas, and concentrate its entire lending portfolio on renewable energy, energy efficiency and energy storage**. For instance, the Trans Adriatic Pipeline (TAP) and the Trans Anatolian Pipeline (TANAP) sections (totalling EUR 1.5 billion and EUR 2.4 billion), are in direct contradiction with the Paris Agreement's goals.

Finally, the EIB should **support more investments into sustainable heating and cooling systems, in particular smart thermal infrastructure and district heating and cooling systems across the EU**. According to the 2016 EU Strategy on Heating and Cooling, in 2012, 75% of primary energy for heating and cooling came from fossil fuels, among which 46% from gas. Established technologies that are sustainable, available and foster Europe's energy independence, such as heat pumps, geothermal, solar thermal or other forms of renewable heating and cooling, should be made a priority in the EIB's reviewed energy lending policy.

2. As set out in Box 1, the Bank believes it has a robust framework to ensure that energy projects being financed are compatible with long-term climate targets. Do you agree? Are there areas where the Bank can improve?

- The Bank must **stop financing all fossil fuels projects with no exception.**
- The EIB should also ensure **that beneficiaries of the bank's loans are also aligned with European energy and climate targets.**

The Bank does not have yet a robust framework to ensure that the energy projects that are being financed are compatible with long-term climate targets. As mentioned before, the EIB should undertake a **complete and immediate divestment from fossil fuels projects.** The current gas infrastructure projects (e.g. TAP, TANAP) do not take into account the long term trend of decreasing needs of gas in the EU. The role of the Bank should be instead to increase its support for **production and storage of renewable energy, which also serve to decrease Europe's energy dependency, and to focus on energy efficiency to reduce Europe's demand in energy.**

Furthermore, the Bank should improve its selection of projects it is financing. The EIB should not only support Paris-proof projects, but also make sure that these projects are led by beneficiaries that are aligned with European energy and climate targets.

3. Within the broad areas of renewables, energy efficiency and energy grids, are there particular areas where you feel the Bank could have higher impact?

- The EIB should **finance more sustainable heating and cooling projects, in particular within cities.**
- The Bank should also act as **guarantee for riskier projects, such as for example the deep renovation of buildings, in line with the EU Smart Finance for Smart Buildings initiative.**

The **potential of energy savings and use of renewable energy in heating and cooling systems is significant** and therefore the Bank must concentrate its loans more strongly on this area. As the example of Vienna shows, in many European cities there is an immense opportunity to decarbonise the heating and cooling sector. Vienna's final energy consumption for heating and cooling has at the moment a large share of gas (41%). But the city and many others in Europe want to improve this situation, by phasing out dirty energy sources and phasing in instead renewable ones. This large share of gas in heating and cooling is often similar in other European cities, and therefore illustrates the need for supporting investments in the sustainable transformation of the local heating and cooling sector.

The role of the EIB should also be to support riskier projects. **Supporting smaller projects, such as from cities or local energy communities, implies carrying more risks for the EIB, but they also have a high replicability potential across Europe.** In particular, when it comes to **financing the deep renovation of old buildings, which is absolutely critical to achieve the EU's long-term renovation targets,** the EIB should act as guarantee to back beneficiaries in undertaking these risky and cost-intensive projects.

4. How can EIB reinforce its impact towards ensuring affordability, addressing social and regional disparities and support a just energy transformation?

- The **investment threshold of EUR 25 million should be lowered significantly** in order to allow European local authorities of all sizes to be able to have the opportunity to work with the EIB.
- The **ELENA application procedure should be simplified** in order to allow an improved access to this critical technical assistance instrument.
- The Bank should ensure geographical balance in its lending policy by also **focusing more on Eastern European regions**.

EIB's loans are not accessible for all local authorities at the moment, as it requires important technical and human resources and large investment projects. The Bank should **lower the EUR 25 million threshold** to support also investment projects of smaller and medium-sized cities. Moreover, our members call for a **simplification of the ELENA application procedure**. For instance, Bordeaux Metropole in France intended to apply for ELENA technical assistance in partnership with its local public-private company, dedicated to the energy renovation of private residential buildings, but it was refused because it entails two final beneficiaries. Furthermore, to address regional disparities, the Bank should **focus more in its lending policy on supporting public authorities in Eastern Europe, and more broadly on coal dependent regions**. The potential for renewable energy is high in this region, as a 2017 IRENA [study](#) illustrates. The EIB, when taking investments decisions, should embrace an integrated approach, which unlocks the potential of the concerned region and supports a regional structural transformation strategy owned and carried out by the stakeholders on the ground.

Theme 1: Energy Efficiency First

5. In the case of new buildings, do you have an opinion on the proposed approach to support only buildings that go beyond the mandatory nZEB standard after 2021? What level of ambition should the Bank focus upon, inside and outside the EU?

- The Bank should support new buildings going **beyond the mandatory nZEB standard after 2021** and at the same time also **concentrate in its energy lending policy on supporting the deep renovation of old buildings**.

The Bank should support buildings going beyond the mandatory nZEB standard after 2021, first only inside the EU, and then broaden it at a later stage to all its loans in this area. But the priority should be at the same time to focus on the deep renovation of old buildings, which require significant investment needs: EUR 4.25 trillion up to 2050, above business as usual investments, are necessary to decarbonize the EU buildings stock according to EU Commission figures.

6. The Bank has developed a number of financial and technical assistance products to help promote energy efficiency in private and public buildings. Have you had any experience with these products? If so, do you have a comment or opinion as to how they can be further developed or improved?

- **The Bank needs to simplify the ELENA application procedure and also reduce the investment threshold of EUR 25 million.**

As explained in our answer of question 4, **financial and technical assistance provided by the EIB remains inaccessible for many local authorities**. Small and medium cities struggle with the application, and **the investment threshold of EUR 25 million is too high** for many projects. Europe needs a fair and inclusive energy transition, which entails the participation of all cities. Moreover, **the application procedure for ELENA is still too complicated**. To apply, cities need data and figures, but if their preparation goes too far, then they do not have access to the technical assistance anymore, as our member city Vaxjo from Sweden has recently experienced.

Theme 2: Decarbonising power and heat

9. Does the EPS for power generation remain an appropriate safeguard? Do you agree that adjustment should be made to support flexibility and adequacy? In light of recent developments in renewables, the Paris Agreement and the Sustainable Development Goals, would an exemption to the EPS for power plants in least developed countries continue to be justified?

- **The EPS should be kept at the same level** as a minimum requirement, and it can be made even more ambitious. **No exemptions should be made to the EPS** in order to ensure a Paris-proof energy transition.

The **EPS should remain strict to ensure the decarbonisation** of power generation in the short term, to respect the European and global climate targets. We do not see any room for the EIB neither to provide flexibility for some power plants - even operating for a limited number of hours, nor to keep the current exemption for isolated systems, small islands and developing countries. In the long-term, the EPS should be made even more ambitious in order to support only power generation that is Paris-compliant. There should be **no exemption to the EPS**. Instead of making exemptions, the Bank should **concentrate more strongly on renewables at the local level** in the least-developed countries, in order to ensure a fair transition that grants affordable access to clean energy for all.

Theme 3: New energy technologies and business models

10. Are there ways in which the Bank could provide more targeted support to distributed resources (demand response, small-scale generation and storage projects)? Are new business models or technologies emerging in this context, with specific financing needs? Is the Bank's portfolio of financial products and instruments adequate to support this

technological transition?

- The Bank should strongly **support the growth of local energy communities and citizen energy communities.**
- We recommend to strengthen the actions in favour of **small scale generation and storage projects by lowering the EUR 25 million threshold for loans.**

The potential of local energy communities and citizen energy communities is significant: as a recent study of CE Delft has shown, by 2050 half of EU citizens (including local communities, schools and hospitals) could produce their own renewable electricity, covering 45% of the EU's energy demand. **The Bank should support this emerging movement in distributed resources.** This would also **be in line with point 18** of the Bank's lending policy (*"Energy consumers and citizens will be at the centre of the energy transformation. The significant investments required, the evolution of energy prices, the type and location of activities needed will have long-term economic and social impacts. The transition will spur innovation, create growth and jobs in new sectors. In order to be socially acceptable, these impacts will need to remain fair across regions, across society."*) and empower citizens and new market actors at the local level. Furthermore, through its Market Design, the EU has recently enabled communities and individuals the right to generate, store, consume and sell their own energy. Hence, the Bank should provide more targeted support **to small scale generation and storage projects.** The **EUR 25 million threshold** should be lowered to allow a broader access to these critical new actors in the market.

12. Some renewable technologies or applications remain relatively expensive. Should the Bank continue to finance such projects, even in the absence of an innovative component?

- The Bank should **continue to finance those projects** to accelerate the energy transition and **make its leverage threshold more flexible** to include more projects.

All type of renewable technologies projects should be financed, even though some may remain relatively expensive. The current situation requires **all efforts to achieve an accelerated and effective energy transition.** The Bank should prioritize renewables by stopping all support to fossil fuels projects. The **leverage threshold should also be more flexible** in order to include more projects in the bank's energy lending policy.

Theme 4: Securing the infrastructure needed during the transformation

13. In light of the long-term nature of the network development plans, which type of projects should the Bank focus upon? In addition to PCIs, should the Bank prioritise newer investment types, for instance in digital technologies?

- **Decentralised, sustainable and Paris-proof power generation** must be prioritized over gas infrastructure.

Long-term commitments entail for the Bank to **stop all support to fossil fuels projects** and to redirect its resources towards renewables, energy efficiency and energy storage projects. Gas

demand is forecast to decrease in the long-term, meaning therefore that there is no need for the Bank to finance the current PCIs, which are oftentimes gas pipelines. Trinomics found in the 'ENTSOG's 2017 TYNDP [Ten Year Network Development Plan] that the PCI list is based on expected gas demand levels for 2030 that are between 12.2 and 40.5% too high. The EIB should be in a position to carry out such assessment without relying on the European Commission or ENTSO-G to ensure it is aligned with the objectives of the Paris Agreement. The Bank should **prioritize instead decentralised sustainable power generation**, and focus on the sustainable transformation of the heating and cooling system, such as by financing **smart thermal grids infrastructures across Europe**.

14. What is your view on the investment needed in gas infrastructure to meet Europe's long-term climate and energy policy goals, while completing the internal energy market and ensuring security of supply? What approach could strike the right balance to prevent the economic risk of stranded assets?

- To meet long-term climate targets and ensure security of supply, the Bank **needs to prioritize renewable energy, energy efficiency and energy storage and completely divest from all gas projects.**

As stated in point 17 (*Reaching the goals of the Paris Agreement requires the EU to eliminate nearly all greenhouse gas emissions by 2050. It follows that by the middle of the century, if not earlier, fossil fuels such as coal, crude oil and even natural gas will no longer be used to any significant extent, at least in the absence of carbon capture and storage, to generate electricity, supply heat or fuel transport. This implies a radical transformation of energy systems*), the need for gas will decrease over time. To ensure security of supply, the EIB's efforts should be concentrated **on renewable energy, energy efficiency and energy storage**, which would contribute to decrease Europe's energy dependency. The current gas infrastructures are enough, and we need instead to accelerate the transition towards clean, renewable and infinite energy sources. The **European potential in renewables is under-used**. In a [study](#) published in February 2018, IRENA (International Renewable Energy Agency), affirmed that all European countries have a tremendous cost effective renewable potential. Concentrating strongly on renewables is also an tremendous opportunity to boost local economic development and create local jobs, ensuring a fair and inclusive transition. Continuing investments in gas projects is not only incompatible with Europe's climate goals, but such projects also risk becoming stranded assets.

We consider as "**false solutions**" the perspective of having **Carbon Capture and Storage** and "green" or "**renewable**" **gases** playing a significant role in the future EU energy system. Therefore, the push for these technologies by the industry should not be used as an alibi not to operate this radical transformation that the EIB refers to.

15. Should the Bank refrain from supporting hydrocarbon production, in addition to exploration? If so, should gas be treated the same as oil? Within and outside the EU?

- The EIB should **divest from hydrocarbon production and treat gas as oil**, both inside and outside the EU.

As point 27 states, “Meeting the objectives of the Paris Agreement will not be possible without significant efforts outside Europe and the EU intends to be exemplary in order to play a leading role in climate mitigation”, the EIB must lead the way and divest from all fossil fuels. **Refraining from hydrocarbon production is then a necessity.** The impact of gas on climate change is significant by emitting CO² when it burns and leaking methane into the atmosphere (which is 34 to 86 times more potent than CO²). Investments for green gas should also be treated with scepticism, as for instance hydrogen technologies still turn out to be polluting, contributing to air pollution in the form of nitrous oxides when burned. Moreover, the Bank should follow the trend in decreasing gas consumption in the EU. According to the [EU Commission](#), a **decarbonized Europe will consume below 50 Mtoe** (Million Tonnes of Oil Equivalent) in 2050, from over 350 Mtoe today. It will reduce EU gas imports by 92%.

To be Paris-compliant, **most fossil fuels have to stay in the ground.** In 2012, a study of the University College London found that a third of oil reserves, half of gas reserves and over 80% of current coal reserves globally should remain in the ground, if global warming is to stay below even the 2°C target.

Supporting transformation outside the EU

16. Where can the Bank most usefully focus its support – either financial or advisory – to meet the Sustainable Development Goals outside the EU and better support the scaling up of renewables, energy efficiency and electricity grids in a developing country context?

- The Bank should **provide both financial and advisory** support for local authorities outside the EU.

The bank should multiply support to local authorities, first to share its expertise, but also to help funding projects. **Developing countries lack both skills and funds to lead a fair and inclusive energy transition.** For instance, the Municipal Project Support Facility (MPSF), intended for the Eastern Partnership countries to help municipalities initiate bankable projects, should be linked to a fund to implement those projects.

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Energy Cities: The European Association of local authorities in energy transition.

We have more than 1,000 towns and cities members in 30 countries. Energy Cities leads the Covenant of Mayors' Office (www.eumayors.eu) and coordinates EU projects to capitalize on city pioneers and give inspiration to more territories based on our 36 proposals for the local energy transition. Visit our best practices [website](#) and read our blog and positions papers.