

## Eurogas response - EIB lending policy consultation

Question	Answer
<p><b>Q.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?</b></p>	<p>Overall the issues which have been identified in terms of energy system transformation seem pertinent. Meeting an increasing energy demand with acceptable emissions without impairing energy security at a socially acceptable cost is the main exercise to perform for the transition to be successful. To this aim the relevant energy-related policies (CO2 pricing, energy taxation, market outsets and competition) will have to be taken in due consideration, <b>together with non-energy related but relevant policies (i.e. financial regulation, trade and taxation, transport, agriculture and social policies). In particular the evolution of the EU approach to State Aid in the Energy and Environmental Sector beyond 2020 (now 2022 with the extension) should be taken in due consideration.</b></p> <p>We fully share the EIB view that meeting the long-term decarbonisation targets at least <b>cost will require a portfolio of low-carbon technologies.</b></p> <p>The transition to a low carbon system should fully recognise the positive contribution of all sustainable energy carriers, including natural gas and other sustainable gases, in replacing more polluting dispatchable generation and heating systems, together with the positive contribution of existing and new conventional infrastructures, due to their crucial enabling features in terms of system flexibility and reliability. For this reason, it is positive that the EIB acknowledges the sector coupling, as increased interaction in perspective between the electricity and the gas sectors.</p>
<p><b>Q.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?</b></p>	<p>Investments in the energy sector face today unprecedented challenges and opportunities, due to the economic, financial and global market evolutions, increasingly evolving regulatory framework.</p> <p>Lending policies need to help put forward in due time the necessary investments to ensure the delivery of secure, sustainable and affordable energy.</p> <p>Additionality should remain a key element in orienting the EIB lending policy. Long term shared principles should provide the necessary long-term stability while policy needs to remain open and supportive for innovation in all the segments of the energy value chain where this can bring additional benefits in terms of competitive supplies, sustainability and energy security.</p> <p><b>A thorough dialogue with the private sector should be maintained and fostered, for a better understanding of the current and future challenges faced by business models.</b></p> <p>As from the 20 20 20 onwards, including with the latest 2030 EU objectives, the relevance of support schemes, CO2 prices / abatement costs and energy efficiency has increased dramatically in the assessment (and viability) of energy investments and business models in Europe.</p>

	<p>So far the EIB lending in the period 2013-2017 has focused on renewable and energy efficiency, two sectors that were supported by a system of targets, incentives and obligation schemes. In perspective the EIB should broaden the spectrum of investments, by looking at the CO2 abatement that can be achieved from an LCA perspective. As such biomethane production for example can reduce CO2 emissions by over 250% in certain cases depending on the production pathways (ANNEX V, RED II).</p> <p>Concerning the EPS for new investments, the standard should probably look not only at the emission performance of the new installation per se and in absolute terms, but – especially when more sustainable solutions are introduced, including natural gas, other sustainable gases or CCS/CCU - should take into account also the achievable emission abatement, compared to the previous situation, especially in case of refurbishment, repowering, revamping, fuel switching or replacement. The contribution of investments to energy security and flexibility should also be considered as a positive element in the assessment.</p>
<p><b>Q.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?</b></p>	<p>Renewables: the EU has recently revised the Renewable Energy Directive, the Energy Efficiency Directive (including the Energy Performance of Buildings) and has defined a new Governance to ensure the achievement of the 2030 targets. All renewable energy should be considered in this exercise. The RED II Directive sets an ambitious target to 2030 of 32% on final consumptions, but under new terms requiring now a better market integration, an improved responsibility of RES in the system.</p> <p>Sectoral and technological trajectories will need to be observed closely to ensure an efficient development of renewable energy (see IRENA report on RES cost).</p> <p>Investments to reinforce the network will accelerate the RES market integration, especially for those technologies close to grid parity. Competitive and transparent methods to develop RES capacity shall remain a pre-requisite for EIB support in this area. They shall be non-discriminatory but at the same time require sound and adequate financial practices. The evolution of the EU State Aid Framework for energy and the environment post 2020 (now 2022 with the extension) will also have to be considered for the future development of renewable energy. The evolution of instruments such as PPAs in the different national jurisdiction should also be taken into consideration.</p> <p>The repowering/revamping of existing installations (especially for wind energy where a big potential exists in Europe also with the aim to optimize land use) falls naturally in the scope of measures with impact to achieve the new RES target.</p> <p>The new reality of the Local Energy Communities can also receive attention for the EIB for all those measures that can bring an added value and can help mitigate the risk for market participants and consumers.</p>

	<p><b>Energy Efficiency</b></p> <p>Energy efficiency can be a critical driver to achieve growth and sustainability.</p> <p>In the building sector energy efficiency can have a dramatic impact (today around 36% of CO2 emissions and 40% of final energy consumption at EU level). Focussing measures for energy efficiency in building could bring substantial progress. Upfront capital investment remains the main barrier in this area. They should also be considered in the broader context of fiscal policies and incentives.</p> <p>Energy Service Companies (ESCOs) have promoted so far a benefit sharing model often referred to Energy Performance Contracts that ensure an optimal use of public resources, measurable and accountable progresses and the adequate competence in energy management, through integrated solutions.</p> <p>Minimum requirements for the improvement of the energy performance are still defined at MS level, and they should ensure a balance between the investment cost and the energy saving along the life cycle of the building, as to prioritise investment with the most substantial (and measurable) improvement in the energy performance.</p> <p>A medium-long term strategy for NZEB - Nearly Zero Energy Building will require a new approach in the design and management of buildings that will have to include BIM tools (Building Information Modelling) and BEMS tools (Building Energy Management System) for Smart Buildings to allow the integration of energy smart systems enabling the optimization of consumption.</p> <p>Public-Private Partnerships should also be explored for the renovation also of public buildings with Energy Performance Contracting</p> <p>The ICT (Information and Communications Technology) as enabling factor needs to be fully exploited and investigated, also for smart grids and smart systems, as they can bring benefits in terms of demand response ad energy efficiency.</p> <p>A comprehensive overview of the support measures in RES and obligations schemes for energy efficiency across Europe remains crucial, together with fiscal incentives.</p>
<p><b>Q.4 How can EIB reinforce its impact towards ensuring affordability, addressing social and regional disparities and support a just energy</b></p>	<p>The Bank should ensure that its lending policy is aimed at reinforcing a well-functioning energy market and enabling the development of technologies which can help provide stability in this respect. As the energy transition will have a cost, ensuring that lending is sufficiently varied to support a least-cost energy system in the future with optimal levels of energy security for populations at risk, would be an optimal pathway and usually involve a well-balanced electricity and gas market with increasingly high levels of renewable towards 2050.</p> <p>As far as regional disparities are concerned: the Bank could take a more prominent role in steering weaker countries to define and build proper Energy policies, which would then ease the inclusion of the private sector,</p>

<p><b>transformation?</b></p>	<p>which will know upfront the role that countries expect them to play. Helping countries structure the framework of their energy projects (preparatory phase) could also be a role that the Bank could take a more prominent role in.</p>
<p><b>Q.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?</b></p>	<p>Supporting NZEB is a key task towards 2050. Nevertheless, a very large share of the building stock will still be standing in 2050. As such, a key focus should be to help reduce the consumption of these buildings and ensuring the replacement of old and inefficient heating solutions, such as oil heating, with modern and efficient gas condensing boilers and CHP for large apartment blocks. If the latter is excluded, a larger portion of the challenge will remain an unsolved issue.</p> <p>Minimum requirements for the improvement of the energy performance are still defined at MS level, and they should ensure a balance between the investment cost and the energy saving along the life cycle of the building, as to prioritise investment with the most substantial (and measurable) improvement in the energy performance. A medium-long term strategy for NZEB - Nearly Zero Energy Building will require a new approach in the design and management of buildings that will have to include BIM tools (Building Information Modelling) and BEMS tools (Building Energy Management System) for Smart Buildings to allow the integration of energy smart systems enabling the optimization of consumption.</p>
<p><b>Q.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?</b></p>	<p>Energy Service Companies (ESCOs) have promoted so far a benefit sharing model often referred to Energy Performance Contracts that ensure an optimal use of public resources, measurable and accountable progresses and the adequate competence in energy management. The EIB could focus on dedicated support for ESCOs, as they can also play a crucial role as project collectors for small initiatives and difficult to standardize, as this is typically the case for energy efficiency projects for buildings.</p> <p>Public-Private Partnerships should also be explored for the renovation of public buildings with Energy Performance Contracting</p> <p>The ICT (Information and Communications Technology) as enabling factor needs to be fully exploited and investigated, also for smart grids and smart systems, as they can bring benefits in terms of demand response ad energy efficiency.</p>

<p><b>Q.7 Do you have lessons learned to share in order to improve the financing of energy efficiency in SMEs? Is technical assistance an important dimension? If so, do you have any views as to which type of technical assistance that is the most effective to provide?</b></p>	<p>Energy efficiency can be a critical driver to achieve growth and sustainability.</p> <p>In the building sector energy efficiency can have a dramatic impact (today around 36% of CO2 emissions and 40% of final energy consumption at EU level). Focussing measures for energy efficiency in building could bring substantial progress. Upfront capital investment remains the main barrier in this area. They should also be considered in the broader context of fiscal policies and incentives.</p> <p>Energy Service Companies (ESCOs) have promoted so far a benefit sharing model often referred to Energy Performance Contracts that ensure an optimal use of public resources, measurable and accountable progresses and the adequate competence in energy management.</p> <p>Public-Private Partnerships should also be explored for the renovation of public buildings with Energy Performance Contracting</p> <p>Financing of small scale energy efficiency projects with a project finance structure often leads to high (fixed) due diligence costs (technical reports, legal, financial). A lighter process in function of the amount of investment would strongly help to accelerate this segment.</p> <p>Likewise, the individual projects in these field can usually be quite small, which often results as funding being best envisaged at a portfolio level, typically when the projects are already built. Relaxing the constraint on additionality to allow recycling of equity in these cases would be helpful.</p>
<p><b>Q.8 Declining costs and competitive auctions are transforming a number of renewable markets (e.g. onshore wind, utility-scale PV). How can the Bank best support these relatively mature technologies? In the context of increasing market integration, is there a need for financial instruments to help attract</b></p>	<p>The bank should focus its help on the development of technologies which have not yet reached full market maturity, or for which a market is still forming. Furthermore, technologies linked to the facilitation of sector coupling which would limit challenges to the integration of renewable electricity, should be supported in priority. These could either be CHP providing flexibility by producing electricity and heat, electrolyser units which can convert and store excess electricity, or other renewable and decarbonised gases which could help keep an easily dispatchable source of primary energy using existing infrastructure.</p> <p>Sectoral and technological trajectories will need to be observed closely to ensure an efficient development of renewable energy (see IRENA report on RES cost). The RED II Directive sets an ambitious target to 2030 of 32% on final consumptions, but under new terms requiring now a better market integration, an improved responsibility of RES in the system.</p> <p>Investments to reinforce the network will accelerate the RES market integration, especially for those technologies close to grid parity.</p> <p>Competitive and transparent methods to develop RES capacity shall remain a pre-requisite for EIB support in this area. They shall be non-discriminatory but at the same time require sound and adequate financial practices. The evolution of the EU State Aid Framework for energy and the environment post 2020 (now 2022 with the extension) will also have to be considered for the future development of renewable energy. The evolution of instruments</p>

<p><b>long-term private finance?</b></p>	<p>such as PPAs in the different national jurisdiction should also be taken into consideration.</p> <p>The repowering/revamping of existing installations (especially for wind energy where a big potential exists in Europe also with the aim to optimize land use) falls naturally in the scope of measures with impact to achieve the new RES target.</p> <p>The new reality of the Local Energy Communities can also receive attention for the EIB for all those measures that can bring an added value and can help mitigate the risk for market participants and consumers</p>
<p><b>Q.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?</b></p>	<p>Concerning the EPS for new investments, the standard should probably look not only at the emission performance of the new installation per se and in absolute terms, but – especially when more sustainable solutions are introduced, including natural gas, other sustainable gases or CCS/CCU - should take into account also the resulting emission abatement, compared to the previous situation, especially in case of refurbishment, repowering, revamping, fuel switching or replacement. The contribution of investments to energy security and flexibility should also be considered as a positive element in the assessment.</p> <p>As mentioned in Annex II §19 of the consultation document, the capacity of gas-fired plants is likely to play an important role in securing system adequacy during the energy transition. It is therefore important that flexible gas-fired power plants stay eligible for EIB support.</p> <p>Eurogas would therefore support the idea expressed in Annex II §29 to align the EIB criteria with the decisions taken regarding capacity mechanisms in the new electricity regulation: a threshold of 550 g CO<sub>2</sub> of fossil fuel origin per kWh of electricity;</p> <p>Eurogas does not recommend lowering this threshold in the future. Indeed, the net efficiency of gas-fired assets is influenced by their design factors (with a trade-off between efficiency and flexibility or size), but also by the laws of thermodynamics and the chemical structure of fossil fuel gas. These two aspects cannot be modified and create clear limits on the acceptable threshold. In this regard, the efficiency of peak power plants, such as gas turbines operating in open-loop or combined-cycle gas turbines operating in flexible modes is certainly less than that of a CCGT at full load. In order to lower the actual CO<sub>2</sub> emissions, the main instrument should stay the EU-ETS cap-and-trade scheme. In practice, the use of renewable gas in these gas-fired assets will contribute to the long-term decarbonization targets.</p>
<p><b>Q.10 Are there ways in which</b></p>	<p>As new technologies are appearing and gradually reaching maturity, the bank should take into account the importance of projects aimed at stabilizing the</p>

<p><b>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?</b></p>	<p>overall energy system. Indeed, examples of the importance of multiple technologies becomes clear in the framework of the TYNDP on the electricity and gas side which highlight the importance of a coordinated approach. The bank could help with facilitating financing for projects which have at their core this idea of facilitating stability in the energy system as well as Res integration</p>
<p><b>Q.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?</b></p>	<p>Although the aim should be to finance the most cost-effective alternatives to facilitate the EU's long term decarbonisation ambitions, elements such as positive externalities which may not be fully integrated in the cost of the project, could be the basis for funding for technologies which may otherwise be considered expensive. An example of this may be the cost of hydrogen production which doesn't adequately price in the avoided grid reinforcement on the electricity side provided by the possibility of converting excess electricity on the grid.</p> <p>Sectoral and technological trajectories will need to be observed closely to ensure an efficient development of renewable energy (see IRENA report on RES cost). The RED II Directive sets an ambitious target to 2030 of 32% on final consumptions, but under new terms requiring now a better market integration, an improved responsibility of RES in the system.</p> <p>Investments to reinforce the network will accelerate the RES market integration, especially for those technologies close to grid parity. Competitive and transparent methods to develop RES capacity shall remain a pre-requisite for EIB support in this area. They shall be non-discriminatory but at the same time require sound and adequate financial practices. The evolution of the EU State Aid Framework for energy and the environment post 2020 (now 2022 with the extension) will also have to be considered for the future development of renewable energy. The evolution of instruments such as PPAs</p>

	in the different national jurisdiction should also be taken into consideration.
<b>Q.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?</b>	<p>Investments into smart grids on both the electricity and gas side as well as sector coupling technologies should be the focus to increase overall system efficiency at least-cost.</p> <p>The ICT (Information and Communications Technology) as enabling factor needs to be fully exploited and investigated, also for smart grids and smart systems, as they can bring benefits in terms of demand response and energy efficiency.</p>
<b>Q.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?</b>	<p>Investments in natural gas merchant infrastructures have already at disposal some risk mitigation instruments provided in the EU legislative framework, such as the possibility to be exempted from Third Party Access requirements, thus allowing shippers to create the conditions of competitive supplies to the market. Investments in natural gas infrastructures for security of supply reasons, when remunerated by system users through regulated tariffs (and thus not bearing the risk to be stranded), should be identified through open selection procedures, ensuring the most efficient size of the infrastructure and the lowest cost for the system. When deciding on cross-border cost allocation, NRAs should ensure that its impact on national tariffs does not represent a disproportionate burden for consumers. Competitive and efficient gas infrastructures can be driven by the evolution of some new and essential characteristics of the gas market (i.e. new regulatory arrangements and the development of hubs).</p>
<b>Q.15 Should the Bank refrain from supporting hydrocarbon production, in</b>	<p>Natural gas should not be treated in the same way as oil. Natural gas is an important bridging fuel and energy carrier in the transition to a low carbon economy and is the most efficient and environmentally friendly fossil fuel. It could replace more pollutant fuel in many areas of Europe and as such it should remain a crucial component of the energy mix, that supports</p>

<p><b>addition to exploration? If so, should gas be treated the same as oil? Within and outside the EU?</b></p>	<p>renewables, complements them and makes them viable. Natural gas should therefore fully participate in the transition, thanks to the improved environmental performance it can ensure and the flexibility and security it provides to the energy system.</p> <p>We fully share the EIB view that meeting the long-term decarbonisation targets at least cost will require a portfolio of low-carbon technologies.</p> <p>A transition excluding the possibility to use low-carbon fossil fuels in concert with innovative solutions, an improved environmental performance and more forward-looking R&amp;D will simply not be viable or will end up in preserving the status quo.</p> <p>Therefore, the EIB should look closely at all investments in the value chain that can help improve the environmental performance of all fuels as a matter of priority, including CCS and CCUS, because diversifying that part of the mix for many sectors poses a challenge of such a scale that it leaves us very little of no viable alternative in the time horizon of the transition.</p> <p>By ensuring that technologies which may help the overall stability of the energy system (by providing support renewable and decarbonised vectors) are included. Furthermore, as energy efficiency is a key aspect of decarbonisation, ensuring that technologies which can help lower consumption and empower customers, such as CHP and efficient gas condensing boilers, are considered in the EIB lending policy.</p>
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