

**REPLIES OF THE EUROPEAN COMMISSION TO THE EUROPEAN COURT OF  
AUDITORS SPECIAL REPORT  
“ENERGY EFFICIENCY IN ENTERPRISES: SOME ENERGY SAVINGS BUT  
WEAKNESSES IN PLANNING AND PROJECT SELECTION”**

EXECUTIVE SUMMARY

I. Energy efficiency is essential to achieve the overall Energy Union goals and the EU energy and climate objectives for 2030 and 2050 presented in the European Green Deal.

A substantial strengthening of the energy efficiency policies is an integral part of all scenarios developed by the Commission in the 2030 Climate Target Plan<sup>1</sup>. Accordingly, the Commission proposed a review of the Energy Efficiency Directive (EED) in the Fit for 55 package<sup>2</sup>.

The energy efficiency ambition should rise from 32.5 % in the current EED (and less than 30% in the National Energy and Climate Plans (NECPs), to 36% for final energy consumption and 39% for primary energy consumption, corresponding to the proposed 9% of further decrease of energy consumption in the EU.

II. For the success of the energy transition, all sectors of the economy have to become more energy efficient. Enterprises are active in the industry, transport and service sectors, which account for more than two thirds of final energy consumption.

Most of the energy efficiency financing measures implemented by the Member States are part of their Energy Efficiency Obligations under Article 7 of the EED. The Commission proposal for the review of the EED reinforced these obligations, almost doubling the required energy savings from 0.8% to 1.5% of final energy consumption.

On the sectors targeted by the implemented policy measures, the largest share of energy savings reported by Member States results from cross-cutting measures, which cannot be attributed to a single sector. Most measures, by count of reported measures, target services and industry, which cover most companies (except for transport companies) and the public sector.

III. Cohesion Policy Funds represents one of the main sources of EU funding to support direct investments in energy efficiency in enterprises. This support is crucial considering that energy efficiency is one of the sectors facing the largest investment gap in the EU, and that EU funding is a key driving force to scale up and leverage investments in energy efficiency.

V. The EED underlines the energy saving potential and contribution of enterprises to the Union's energy efficiency objectives. The mandatory National Energy Efficiency Action Plans (NEEAPs) include the funding needs of Member States.

VI. Despite the lack of explicit link to planning documents in some programmes, the projects selected by national authorities contributed to those priorities. Justification for the choice of funding instruments was not required under the 2014-2020 rules but will be required in the new period.

VIII. The Commission agrees with the ECA assessment that the investments were in general efficient.

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<sup>1</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Stepping up Europe's 2030 climate ambition Investing in a climate-neutral future for the benefit of our people, COM(2020) 562 final of 17.9.2020

<sup>2</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Fit for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality, COM/2021/550 final of 14.7.2021

X. For the 2021-2027 financing period there are under Policy objective 2 (“A greener, low-carbon...”) two Specific objectives with distinct common output and result indicators. The cohesion policy monitoring system will allow to filter indicators according to specific objectives.

The Commission considers primary energy intensity is also a relevant indicator for measuring energy efficiency measures.

XI. The Commission considers that the contribution, estimated by the ECA, from energy efficiency investments on enterprises in the framework of the European Regional and Development Funds (ERDF) and the Cohesion Funds (CF) during the period 2014-2020 should be put in the context of the 2020 energy efficiency target. This would lead, following the assumptions made by ECA in its calculation, to estimate that the project savings represent about 2,3 % of the effort needed to achieve the 2020 target.

This represents a substantial contribution when it is assessed in the context of the different actors that contribute to the energy efficiency targets, enterprises representing a fraction of them, and in the context on the different measures that Member States put in place to achieve their energy efficiency targets in the framework of the EED, the Energy Performance of Buildings Directive (EPBD), the EU Emissions Trading System (ETS), Effort Sharing Regulation, add vehicle CO<sub>2</sub> emissions performance standards and other policy measures such as tax measures, supplier obligations, information campaigns, smart meters and products policy (eco-design and energy labelling). In fact, EU funding support and in particular support from the ERDF and CF are just a part of the global effort.

XII. First indent: The Commission partially accepts the first recommendation.

Second indent: The Commission accepts the second recommendation.

## INTRODUCTION

01. As laid down in the EED, output could refer to performance, service, goods or energy.

02. The Commission highlights that improving energy efficiency contributes also to the resilience of the energy market - by reducing energy demand, energy imports and energy bills for energy consumers - and thus also mitigates the economic and social impact of rises on energy prices when this is happening.

05. The recent proposal for a recast of the EED - Article 4 - sets out a binding Union’s target of 9% reduction of energy consumption for 2030 (both for primary and final energy compared to 2020 reference scenario projections for 2030). This new target equals the reduction of 36% in final energy consumption and 39% in primary energy consumption for 2030 in line with the impact assessment accompanying the Climate Target Plan<sup>3</sup>.

07. The national objectives are called national contributions in the revised 2018 EED. They are set by the Member States.

The Commission analyses the national contributions set by Member States to assess how they collectively contribute to reaching the EU target. However, as national contributions are indicative, there is no power for the Commission to intervene directly in these targets.

13. The NEEAPs provided a framework for the development of the national energy efficiency strategies and covered energy efficiency improvement measures in view of achieving the national energy efficiency targets for 2020.

As laid down in the Energy Efficiency Directive, the NEEAPs included a set of policy measures in order to achieve the national indicative energy efficiency target that each Member State set.

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<sup>3</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Stepping up Europe’s 2030 climate ambition Investing in a climate-neutral future for the benefit of our people, COM(2020) 562 final of 17.9.2020

The NEEAPs served as broad strategic policy documents, and Member States could use the analysis done in the NEEAPs for the cohesion policy programme preparation, to identify barriers to investments and to set a coherent approach to improve energy efficiency at national level. However, the scope of NEEAPs' measures were not limited to financial measures from EU or public funding. NEEAPs had a broad policy scope including policy measures such as tax measures, supplier obligations, information campaigns, smart meters, products policy (ecodesign and energy labelling) and building regulation.

Finally, it should be clarified that they were not legally binding, either in terms of targets or of presented planned measures, and that the legal framework did not require establishing a link between the NEEAPs and national or EU funding, including in relation to the ERDF / CF.

## OBSERVATIONS

34. b) While the alignment of the Operational Programmes (OPs) with the NEEAPs should indeed be ensured, the different timing in the preparation and adoption of the OPs vs. the same process for the NEEAPs can make that alignment difficult.

37. The Commission points out that for the success of the energy and climate transition, all sectors of the economy have to become more energy efficient. Enterprises are active in the industry, transport and service sectors, which account for more than two thirds of final energy consumption.

43. The Commission refers to its replies to paragraphs 13 and 34 (b).

44. The Slovenian Managing Authority confirmed that when supporting enterprises with cohesion policy funds under PA1 and PA3 in the framework of OPs 2014-2020, there are also some specific measures that are focused on resource and energy efficiency in enterprises (mostly in Small and Medium –sized Enterprises). These measures do not have a direct basis in NEEPN, but when designing these kind of measures, the Ministry of Economy normally coordinates with the Ministry for Infrastructure which is responsible for energy efficiency. When supporting enterprises, resource and energy efficiency is usually pursued through selection criteria with additional points for contribution to resource and energy efficiency.<sup>4</sup>

45. The Common Provisions Regulation (CPR) includes a specific enabling condition on the NECPs that needs to be fulfilled by Member States (MS) to be reimbursed by the Commission. The CPR also states the programmes must have a summary of challenges including the ones identified in the NECPs. A 'consistency check' is much broader than considering challenges from the NECPs.

75. The Commission's technical guidance "Financing the energy renovation of buildings with Cohesion Policy funding" of 2014 highlights the role of standards when deciding on energy efficiency investments.

The Commission notes that according to CPR 2021-2027, in selecting operations the managing authority ensures that selected operations present the best relationship between the amount of support, the activities undertaken and the achievement of objectives. Selection criteria and procedures should also give priority to operations, which maximise the contribution of EU funding to the achievement of the objectives of the programme. These provisions aim at preventing the selection of projects with low contribution to the objectives of the programme. In addition, the form of support needs to be justified before programme is approved, which makes it possible for the Commission to prevent grants being used when the financial instruments would be more efficient.

76. Standards were considered essential tools, together with other policy measures, to achieve higher energy efficiency ambition by 2030. Standards can refer to several aspects, like Nearly Zero Energy Buildings (NZEBS) for buildings and the requirements under the Eco-design directive and the energy

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<sup>4</sup> The link to the latest NEEAP in Slovenia: [https://www.energetika-portal.si/fileadmin/dokumenti/publikacije/nepn/dokumenti/nepn\\_5.0\\_final\\_feb-2020.pdf](https://www.energetika-portal.si/fileadmin/dokumenti/publikacije/nepn/dokumenti/nepn_5.0_final_feb-2020.pdf)

labelling regulation for products. For their different nature and the variety of the EU acquis, it is more difficult to establish common standards for enterprises.

81. The De-risking Energy Efficiency Platform (DEEP) database, an open source initiative supported by the European Commission for bottom-up information purposes, notably aiming at de-risking energy efficiency investment by reducing the risk of energy efficiency measures perceived by financial institutions and market actors, It has not been designed to develop formal financial nor technical benchmarks relating to minimum or average energy efficiency targets. It is also important to highlight that while DEEP contains over 17 000 projects, recently increased to more than 24 000 projects, some subsets for specific countries and specific measures may not have the critical size for statistically relevant comparisons.

88. The Commission emphasises that, as presented by the ECA in observations 81 to 87, energy efficiency projects were efficient.

Moreover, the Commission considers that there could be differences between the De-risking Energy Efficiency sample and the sample used by the ECA in this audit, which may explain the differences found by the ECA concerning the median avoidance costs.

In fact, median avoidance costs may differ substantially depending on the specific measures types or the different Member States or regions. Therefore, differences in the relative weight of these variables in the sample may lead to differences on the median values of the samples. Additionally, the Commission underlines that a share of the projects collected in the DEEP database could be considered as best practices examples for energy efficiency investments, which purpose is to showcase the financial benefits of energy efficiency investments, and to promote the business case for such sound investments. This could also be a factor that could lead to a lower median cost of the DEEP database when compared with ERDF and CF projects.

94. Common reply to paragraphs 94 to 98.

Cost-effectiveness assessments have to consider not only the energy savings, but also the multiple benefits of energy efficiency investments, the contribution to multiple policy objectives, their capacity also to trigger private investments in more complex areas, and their benefits beyond energy savings, such as economic, social and environmental impacts.

This includes, inter alia, GHG reductions, overall cost reductions for the enterprises due to increase on productivity and competitiveness, increased asset values and useful life of assets and creation of new jobs. As an illustration of the importance of other benefits on the cost-effective assessments, in the industry sector, the International Energy Agency (IEA) has estimated that productivity and operational benefits may generate up to 2.5 times the value of energy savings<sup>5</sup>.

98. The use of EU funds for such projects needs to be thoroughly assessed. The performance of an investment project should not only be related to its financial performance but also to other criteria such as delivering energy savings and greenhouse gas (GHG) reductions, overall cost cuts for the company (increasing its competitiveness and maintaining/creating jobs).

99. In certain conditions (for instance in certain Member States), e.g. for companies with only difficult or no access to the market to finance themselves such operations, the use of grants can be the only available option in the short term to actually invest in energy efficiency.

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<sup>5</sup> For instance, according to the IEA study “Capturing the Multiple Benefits of Energy Efficiency” when “the value of productivity and operational benefits to industrial companies were integrated into their traditional internal rate of return calculations, the payback period for energy efficiency measures dropped from 4.2 to 1.9 years”

Before approval 2021-2027 programmes the Commission will verify the justification provided by Member States for the use of grants to see if the conditions which require such use of grants are indeed present in a given Member State or region.

105. Under shared management, project selection, and the choice of criteria for project selection, pertains to the mandate and responsibilities of Member States' managing authorities. The Commission participates in an advisory capacity in monitoring committees, where the methodology and criteria used for the selection of projects are approved.

Payback time is not the only measure of effectiveness, and it might be more difficult to verify, as it depends on a number of ad hoc assumptions. It might impose administrative burden on the project promoters which would discourage them from investments, thus undermining the policy objectives. The procedures in place should be proportional to the amount of support and take into account the form of support and other specific conditions. Moreover, as indicated in the reply to ECA Special Report 11/2020, The Commission considers that, for buildings, selection criteria and procedures need to be tailored to the specific objectives of each measure, taking into account that such investments in buildings are project-specific, non-standardised and depend on several factors, such as the state of the building, climatic conditions, labour costs, energy costs, material costs and type of use.

Finally, the technical Commission guidance "Financing the energy renovation of buildings with Cohesion Policy funding", published in 2014, suggested that the net present value (NPV) is generally recommended for assessing cost-effectiveness, rather than the simple payback time as it enables to account the project's cash flow over its lifetime.

107. The co-legislators defined the performance framework for cohesion policy programmes based on financial and output indicators to be assessed at the mid-term review and at closure.

The proposal for programmes to monitor the results of funded measures was not part of the regulatory requirements and would have created a very significant burden on public authorities and beneficiaries. Assessing the impact of the programmes is a matter for programme evaluation at national and EU level.

The co-legislators defined the performance framework requirements in the 2014-2020 legislation. For the 2021-2027 the co-legislators have modified the provisions relating to the performance framework to include result (outcome) indicators at the level of beneficiaries.

110. The current target for estimated GHG reduction is 20 million tonnes across a range of investment priorities, including energy efficiency. The lower target is mainly justified by the elimination of a small number of calculation errors in initial programmes.

No common indicator was established for energy efficiency in enterprises. However, a number of programmes used Investment Priority 4b with which they used the enterprise indicators and the common indicator on the estimated reduction of GHG emissions (using national methodologies).<sup>6</sup>

112. Programme specific result indicators in 2014-2020 were intended to be impact / context indicators designed to capture the overall trend to which the programme was intended to contribute to.<sup>7</sup>

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<sup>6</sup> <https://cohesiondata.ec.europa.eu/stories/s/In-profile-Cohesion-policy-reducing-GHG/cwbb-y39w>

<sup>7</sup> See the concepts and recommendations paper:

[https://ec.europa.eu/regional\\_policy/sources/docgener/informat/2014/guidance\\_monitoring\\_evaluation\\_en.pdf](https://ec.europa.eu/regional_policy/sources/docgener/informat/2014/guidance_monitoring_evaluation_en.pdf)

114. By their nature, programme specific indicators are specific to the programme. Their purpose was to monitor a dimension of the supported projects at programme level.

116. b) For the 2021-2027 financing period there are under Policy objective 2 (“A greener, low-carbon...”) two distinctive Specific objectives: 2.1 “promoting energy efficiency and reducing greenhouse gas emissions” and 2.2 “Promoting renewable energy in accordance with Directive (EU) 2018/2001,...”. Annex I of the ERDF/CF Regulation 2021/1058 lays down separately for both specific objectives relevant common output and result indicators. The cohesion policy monitoring system (provided by CPR (EU) 2021/1060) will allow to filter indicators according to specific objectives.

The Commission considers primary intensity is also a relevant indicator for measuring energy efficiency measures.

Moreover, for buildings, the methodology set out in the EPBD (Article 3 and Annex I) identifies renewable energy as one of the components in the energy performance of a building. The performance of a building is measured in (kWh/m<sup>2</sup> year) which combines energy demand, energy use and the generation on site (e.g. grid gas, grid electricity and renewable on site). For the purposes of calculating the energy performance of a building, energy savings and renewable energy generated are both important.

120. The Commission considers that the contribution, estimated by the ECA should be put in context. In particular, it should take account of the different measures that Member States put in place to achieve the global target. Other policy measures contribute to energy efficiency, i.e. tax measures, supplier obligations, information campaigns, smart meters and products policy (eco-design and energy labelling).

Moreover, the Commission considers that the contribution, estimated by the ECA, should be put in the context of the 2020 energy efficiency target instead of the 2030 target as the projects correspond to the programming period 2014-2020 and the 2030 energy efficiency target was only agreed at the end of the programming period 2014-2020 with the adoption of the co-legislators in December 2018 in the Energy Efficiency amending Directive (EU)2018/2002. Therefore, the historical reference point would be 2013, and following the logic presented by the ECA, the saving effort to the 2020 energy efficiency targets was of 21 Mtoe at the beginning 2014 when the programming period 2014-2020 started. This would lead to estimate that the project savings will, once all funded projects are operational, represent about 2,3 % of the effort needed to achieve the 2020 target.

## CONCLUSIONS AND RECOMMENDATIONS

123. As underlined above, the role of the cohesion policy funds as regards energy is to contribute to the achievement of the Union’s climate and energy targets, including the energy efficiency targets.

The Commission considers that contrary to the general statement in this paragraph, the overall results of the report prove that projects in the sector provided significant contribution to the EU objectives. This happened not despite of, but as the result of empowering of the Member States to use selection criteria and procedures, which were fit for purpose in the specific national and regional context. The 2021-2027 framework includes, provisions, which would improve the efficiency, such as better alignment with strategic framework at the EU level, more active involvement of the Commission in the decisions on the form of support, and easier procedures for combining grants and financial instruments. However, given that access to financing, capacity of enterprises, income levels and the nature of market failures differ significantly across the EU and often within the Member States, it would be detrimental to the effectiveness if the decisions on the project selection criteria and procedures are taken at the EU level.

### **Recommendation 1 – Assess the potential and actual contribution of cohesion policy funds to energy efficiency**

The Commission does not accept part (a) of this recommendation.

a) The Commission will consider in its assessment of the 2021-27 programmes whether the planned funding for energy efficiency can deliver the best possible added value, in line with EU objectives and priorities as well as national, regional and local needs and constraints. It will also assess the fulfilment of the ‘enabling condition’ related to the National Energy and Climate Plans.

b) The Commission accepts part (b) of this recommendation.

130. Standards were considered essential tools, together with other policy measures, to achieve higher energy efficiency ambition by 2030. Standards can refer to several aspects, like Nearly Zero Energy Buildings (NZEBs) for buildings and the requirements under the Eco-design directive and the energy labelling regulation for products. For their different nature and the variety of the EU acquis, it is more difficult to establish common standards for enterprises.

132. The Commission considers that cost-effectiveness assessments have to consider not only the energy savings, but also the multiple benefits of energy efficiency investments, the contribution to multiple policy objectives of the implemented interventions, and their benefits beyond energy savings. This includes, inter alia, GHG reductions, overall cost reductions for the enterprises due to increase on productivity and competitiveness, increased asset values and useful life of assets and creation of new jobs.

These other benefits may have a positive financial impact for the enterprises higher, in some cases several times higher, than the one generated by the energy savings.

**Recommendation 2 – Verify whether the choice of the funding instrument is appropriately justified**

The Commission accepts this recommendation.

137. It is possible to identify using the common indicators 2014-2020 specific achievements linked to Investment priority 4b – “promoting energy efficiency and renewable energy use”. The list of common indicators was further expanded to result (outcome) indicators for the 2021-2027 programmes.

138. The Commission refers to its reply to paragraph 116.

139. The Commission refers to its reply to paragraph 120.