Local actors have an essential role in the Energy Union – as drivers of ambition, delivery agents and communicators of the energy transition. While there has been a lot of positive rhetoric about the importance of cities in the Energy Union, it remains unclear what this means in reality. This paper sets out what local actors can do for the Energy Union, and what they need to deliver it.

**Summary**

> The success of the Energy Union will depend on the political commitment of all actors concerned. With some 6500 cities committed to ambitious climate targets to 2020 and about to extend their commitments to 2030, the Energy Union can rely on local actors.

> There are, however, few concrete discussions on how to capitalize on local level action and ambition, and in particular on how cities and regions can play a role in the governance system that will deliver the Energy Union.

> The governance system needs to recognize the diversity and innovation at the local level and provide the enabling framework to engage and support this new wave of actors. Our core recommendations to do this are:

  o **Recognise local commitments and strategies in the governance process**; in particular, ensure cities’ Sustainable Energy Action Plans (SEAPs) under the Covenant of Mayors are be included in the National Energy and Climate Plans (NECP) process.

  o **Create a clear and stable investment environment** through long term goals and intermediate targets enshrined in law, backed by strong political commitments and regular reviews. Allow for accounting of energy efficiency investment as capital infrastructure spending in local governments’ budgets.

  o **Scale up local investment through targeted technical assistance**; notably by fast tracking support through the Juncker Plan’s European Advisory Investment Hub.

  o **Review legal barriers to city level action**, notably through a simplified state aid framework for local actors and a review of their energy competencies through the study of European best practices.
Introduction

The European Commission’s framework strategy for a resilient Energy Union with a forward-looking climate policy, adopted in February 2015, is a strategic priority for Europe. The document describes a **bold vision to deliver a secure, competitive and decarbonised energy system and positions local actors as key for delivering it**. It states “successful implementation depends on the political commitment of all actors concerned [...] including at regional and local level”\(^1\). The framework strategy includes a number of important delivery areas for cities – particularly on energy efficiency in buildings, mobility, smart cities, smart grids and citizen engagement in the energy transition.

Some 6500 cities have committed to ambitious climate commitments to 2020 and from 15 October 2015, cities will be able to support the implementation of the 2030 European objectives through the new integrated Covenant of Mayors for Climate and Energy\(^2\). While this powerful display of commitment has been noted by the Commission, there is little practical understanding on what role cities can play in the governance system that will deliver the Energy Union. Given how decentralised Europe’s energy system is becoming, a governance system that does not recognise or support local actors is unlikely to effectively achieve the Energy Union objectives. This paper sets out what cities can contribute to the Energy Union and what is needed to deliver it.

What can cities do for the Energy Union?

Cities are crucial players in the Energy Union for driving ambition, delivering the action on the ground and communicating what the energy transition means. Local leaders are needed as ambassadors of the Energy Union. They are the closest to Europe’s citizens and are best placed to explain what the energy transition means for European citizens and their daily lives. Cities also understand what their citizens want and can communicate this back to the EU strategy, bringing credibility to the Energy Union project.

As this ambassadorial role, cities can connect to a broader range of actors in the ‘new energy economy’ that is more decentralised, cross border and diverse than the centralised national incumbents of the past. Many cities are becoming energy players in their own right, with city owned energy companies and supporting communities to become energy self sufficient. Cities and regions are much closer to the growing number of SMEs building Europe’s leadership in resource efficient technologies, product and services through cooperation on local projects. Whereas the Commission could previously manage stakeholder engagement with major energy companies, this is much more difficult with thousands of cities and smaller companies that often are not unionized.

Cities are the major delivery agents of the Energy Union and can driver greater action and ambition. They have a crucial role in experimenting and trialing different energy and climate projects. Local actors can see their immediate effects and understand best what works and where barriers lie. At this crucial point in Europe’s low carbon transition, now is the time to experimenting and scaling up national and European policies. Cities need to lead in moving from innovation to implementation and they can offer a strategic alliance with EU-level actors to achieve it.

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\(^1\) EC 2015, *A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy*

What do cities need to deliver the Energy Union?

1) Recognition of local commitments and strategies in the governance process

Under the Covenant of Mayors – a political movement of mayors that has proved to be one of the most successful instruments of EU energy policy – some 6500 cities have made climate commitments to 2020, and have produced over 4600 city/regional delivery plans, known as Sustainable Energy Action Plans (SEAPs).

Many of the commitments in these SEAPs are more ambitious than the EU and national climate and energy targets: signatories have committed to an overall average of 28% GHG emission reduction by 2020 compared to the EU target of 20%\(^{3}\), and have just endorsed an at least 40% CO2 emission reduction target by 2030. City targets and strategies across the EU show that local actors want to do more and are striving to lead the energy transition to improve the quality of life for their citizens. Figure 1 below compares 10 major European city pledges to equivalent national targets: all are more ambitious than their national government except for Berlin where the city’s pledge is aligned with the ambitious national target.

The Energy Union governance structure will be built around integrated national energy and climate plans (NECP) and the annual ‘State of the Energy Union’, a report delivering high level messages on progress, gaps and opportunities to reach the 2030 targets. It is crucial that local plans and strategies under the Sustainable Energy Action Plans (SEAPs) are fed into the European governance process. SEAPs represent a substantial political commitment by local actors and many are funded by EU cohesion funds; not to include local plans and commitments would be a missed opportunity for national and European processes and would signal to local actors that their actions are worthless.

Figure 1: Capital/large cities pledges in the UN NAZCA Database

<table>
<thead>
<tr>
<th>City</th>
<th>Country</th>
<th>City’s CO2e Reduction Target</th>
<th>Target Year</th>
<th>Baseline Year</th>
<th>Equivalent national target(^{4})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam</td>
<td>NL</td>
<td>-40%</td>
<td>2025</td>
<td>1990</td>
<td>-17%</td>
</tr>
<tr>
<td>Berlin</td>
<td>DE</td>
<td>-40%</td>
<td>2020</td>
<td>1990</td>
<td>-40%</td>
</tr>
<tr>
<td>Brussels</td>
<td>BE</td>
<td>-30%</td>
<td>2025</td>
<td>1990</td>
<td>-16%</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>DK</td>
<td>-100%</td>
<td>2025</td>
<td>-</td>
<td>-40%</td>
</tr>
<tr>
<td>London</td>
<td>UK</td>
<td>-60%</td>
<td>2025</td>
<td>1990</td>
<td>-35%</td>
</tr>
<tr>
<td>Madrid</td>
<td>ES</td>
<td>-35%</td>
<td>2020</td>
<td>2005</td>
<td>-10%</td>
</tr>
<tr>
<td>Paris</td>
<td>FR</td>
<td>-25%</td>
<td>2020</td>
<td>2004</td>
<td>-14%</td>
</tr>
<tr>
<td>Stockholm</td>
<td>SE</td>
<td>-44%</td>
<td>2015</td>
<td>1990</td>
<td>-40%</td>
</tr>
<tr>
<td>Vilnius</td>
<td>LT</td>
<td>-20%</td>
<td>2020</td>
<td>2010</td>
<td>+27%</td>
</tr>
<tr>
<td>Warsaw</td>
<td>PL</td>
<td>-20%</td>
<td>2020</td>
<td>2007</td>
<td>+9%</td>
</tr>
</tbody>
</table>

Source: NAZCA Database, European Effort Sharing Decision and LSE Global Climate Legislation Study

\(^{3}\) Joint Research Centre (2015), The Covenant of Mayors in figures and performance indicators: 6-year assessment

\(^{4}\) The national target is based on political commitment by the national government to reduce greenhouse gas emissions or, when not available, on the European Effort Sharing Decision. The target year is always 2020 and the baseline year is the same as the one by the city.
Recommendations

1. The Energy Union governance should recognise the role of local actors, their ambition and political commitment.

2. National Energy and Climate Plans should be required to take into account city and sub-national strategies and report on these. In particular, city Sustainable Energy Action Plans (SEAPs) under the Covenant of Mayors should be included in the National Energy and Climate Plans (NECP) process.

3. The EU should encourage national governments to coordinate with local actors on the low carbon transition. As part of this, the European Commission should review best practices across Member States for embedding city/region strategies into the national framework.

2) A stable investment framework: clarity, predictability and accountability in the governance framework

The low-carbon transition is well underway, carried out by strong innovative companies, committed citizens and engaged politicians, but the pace remains largely dependent on European and national-level political signals and regulatory interventions. For cities to contribute to the Energy Union, clear and long term signals are needed on the priorities and the responsibilities of different actors.

Policy uncertainty has already had a substantial impact on the ability of local actors to implement the low carbon projects they would like to deliver. In the UK for example, substantial cuts to feed-in-tariffs for solar energy mean that major projects such as solar panels for over a thousand schools are unlikely to go ahead\(^5\). In Spain, cities such as Barcelona face major barriers to scaling up renewable energy plans because of national ‘sun taxes’ on solar energy consumption. At the same time, European legislation is having a positive impact on supporting cities in their transition. For example Dutch cities have pointed to the European Building Performance Directive, which set a clear zero carbon goal for new build, as helpful to implement their energy efficiency plans because it sets a legal requirement and mandate to do it.

Local authorities need certainty and predictability on meeting the 2030 climate and energy targets to secure investment in renewable energy, energy efficiency, resource efficient infrastructure and technology.

Recommendations

1. The governance system should have clear long-term goals and intermediate targets enshrined in law, backed by strong political commitments and regular reviews. This should give cities clear long-term signals on the low carbon transition – what the priorities are and how they will be achieved.

2. The NECP process should be **transparent and accountable** so that local actors, businesses and other stakeholders know what to expect from national governments; in particular, how commitments will be enforced and what measures will be taken if national plans do not add up to meet EU-level targets.

3) **An investment-friendly environment: a strong enabling framework for cities**

3.1) **Scale up technical assistance for cities**

**Financing the low carbon transition is a major challenge for cities.** The Covenant of Mayors found that 58% of cities had difficulty implementing their sustainable energy action plan because of lack of finance. Evidence also shows that even when finance is available, there are real problems getting available finance to the right places and fully accessible to local actors. The EIB has said for instance that the barriers to scaling up energy efficiency and climate projects are multiple market failures including lack of information, split incentives and high transaction costs. Similarly, the work of the Commission-mandated Energy Efficiency Financial Institutions Group (EEFIG) concluded it was market barriers, not the lack of capital or interest, that was preventing investment in energy efficiency.

**Local actors need greater technical assistance to access EU funds and overcome the market barriers that are blocking investment.** EU cities that have been successful in securing EU technical assistance support schemes such as the EIB’s ELENA (“European Local ENergy Assistance”) programme report a transformational impact in their region. Proposals developed with the help of the EIB attract significant investment in their region, with strong interest from private investors and a range of “collateral benefits” including systematic integration of climate across other investments, enhanced public-private cooperation, enhanced collaboration within and between local governments. However the demand from cities for technical assistance support outstrips the current capacity. The ELENA facility, for example, has supported around 40 projects since being established in 2009.

The Investment Plan for Europe (“Juncker Plan”), which includes the creation of the European Fund for Strategic Investments (EFSI), is supporting increased investment in low carbon projects but the volume of projects coming through is too low. The newly created EIB-Commission European Investment Advisory Hub is a positive step towards enhancing technical assistance. A priority should be to fast-track support for cities to develop low carbon projects under the EFSI.

**Additional targeted technical assistance programmes such as the EIB’s JASPERS and ELENA are needed to support cities and regions in securing investment in the ambitious projects they are implementing – through support in developing a strong pipeline of investible projects and aggregation of small and spread out low carbon projects.**

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6 Technopolis (2013), *Mid-term evaluation of the Covenant of Mayors*
7 E3G&CER (2013), *Briefing on the European Investment Bank’s new screening and assessment criteria for energy project*
8 Energy Cities (2015), *Unlocking Investment in Cities: ELENA-EIB Technical Assistance Facility*
9 E3G (2015), *Restoring Europe to Competitiveness*
Recommendations

1. Local actors should have a clear role in supporting national government building a forward-looking pipeline of projects under EFSI that contribute to Europe’s climate and energy objectives. The newly created European Investment Advisory Hub should fast-track support for cities committed to develop low carbon projects.

2. The MFF review in 2016-17 should examine whether EU funds are helping local actors finance their transition, and issue recommendations to remove barriers to investment. In particular, the review could look at how to ensure city/regional low carbon priorities inform the national priorities on how the funds are spent, and whether the 20% earmarking could be made more ambitious, targeted and enforceable.

3.2) Make energy efficiency a priority within capital spending budgets

Energy efficiency has been described as the EU’s biggest energy resource and one of the most cost effective ways to enhance the security of its energy supply and decrease the emissions of greenhouse gases and other pollutants. However, there are still major challenges for businesses and cities in actually delivering energy efficiency projects. One problem comes from how public investment in energy efficiency is classified.

Public investment in energy efficiency is often considered as a public green subsidy, thus making it extremely vulnerable to political shifts such as changes in government priorities and funding schemes. In the UK for example, there have been substantial changes to green taxes, subsidies and governments schemes that have directly disrupted local energy efficiency projects. Investment in projects deemed as ‘infrastructure’ is not as vulnerable: capital spending towards major infrastructure projects that boost economic productivity and keep employment levels up are considered as economic stimulus. As energy efficiency can both boost Europe’s productivity reduce Europe’s exposure to external shocks, it makes sense to designate energy efficiency as an infrastructure priority. This could support cities’ efforts in securing greater investment and scaling up energy efficiency deployment.

Another problem is that energy efficiency financing counts as debt in cities’ budgets, and that many EU cities have strict debt rules in line with the national and EU frameworks. Cities are reluctant to increase their level of debts, creating additional uncertainty for energy efficiency investment. As an example, Paris had to look for alternative financing tools for its energy efficiency retrofitting in schools because traditional finance tools such as Energy Performance Contracting (EPC) required public authorities to list the payment as debt in its books.

Re-classifying energy efficiency expenditure as infrastructure capital spending could help overcome these barriers. Designating energy efficiency as an infrastructure priority and ensuring that public subsidies and financial support mechanisms in favour of energy efficiency

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10 EEFIG (2015), *Energy Efficiency – the first fuel for the EU Economy*

11 The Guardian (2013), *Chaos over ‘green tax roll back’ is creating investor hell*
are counted as capital spending, would give greater security and certainty to energy efficiency schemes. It would be a clear policy to safeguard the budget and boost Europe’s competitiveness.

**Recommendations**

1. National governments should designate energy efficiency as an infrastructure priority that boosts economic productivity.
2. Make energy efficiency a capital spending priority in local governments’ budgets so that EE projects are not counted as debt on balance sheets.

### 3.3) Simplify the legal and state aid framework in which cities operate

Cities face numerous legal barriers when implementing the low carbon transition. These range from legal barriers to setting up local energy utilities – such as in France – to national taxes hindering renewable energy deployment such as in Spain. There are also some very good examples where cities have achieved a lot due to strong energy powers at municipal level and a supportive national framework. In Sweden, where local municipalities have more competencies, their climate strategies and action are the most ambitious in Europe.

At EU level, state aid is one of the most important tools the European Commission has at its disposal to build a truly European internal energy market, drive the low carbon transition and create a level playing field for resource efficient products and services. However, state aid can also be a burdensome process which creates unnecessary hurdles as Europe’s energy systems go through a rapid transition. When it comes to driving the transition at the local level in Europe’s regions and cities, reports show that the current framework creates significant hurdles.

First, cities and regions officials have to navigate a complex landscape limited by several technical and sometimes overlapping documents defining de minimis aid (for the smallest projects); environmental and energy aid (notably for renewable energy and energy efficiency schemes); services of general economic interest\(^\text{12}\) (notably for social housing); regional aid (for regional development), and this is even without considering additional limitations on public procurement\(^\text{13}\).

This requires cities and regions officials to become experts on this intricate subject\(^\text{14}\), which is a heavy administrative burden to place on small and medium sized actors. It also places undue uncertainty on any measure local actors wish to develop and this uncertainty can turn into implementation delays, higher costs of finance and ultimately higher burden on tax payers, and lower ambition on their energy transition.

Secondly, the current state aid framework for renewable energy and energy efficiency (as defined in the 2014 Environmental and Energy Aid Guidelines) significantly limits the ability of local actors to drive more energy efficiency and renewable energy schemes, which in turns

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\(^{12}\) Eurocities (2013), Statement on Housing
\(^{13}\) European Commission (2013), Public procurement for Smart Cities
\(^{14}\) CSI Europe (2013), State Aid and Financial Instruments
limit their ability to create jobs, expertise, and tackle energy poverty in their constituencies. Specific barriers include the strong focus on competitive bidding procedures unfavourable to small players, the lack of clarity on what competitive bidding procedures could be for energy efficiency schemes, low aid intensities, low thresholds limiting the use of feed-in-tariffs, etc. Whilst strict rules are necessary to preserve competition in Europe, it is unclear that relatively small-scale measures at city level have a significant impact on the internal market.

**Recommendations**

1. Review the legal barriers for local actors implementing the low carbon transition as part of the energy market design and revision of the Renewable Energy, Energy Efficiency, and Energy Performance in Buildings Directives. The Covenant of Mayors could showcase good examples of legal frameworks that incentivise and support the energy transition.

2. Reform State aid to support city level action, notably by defining specific guidelines for city-level action to simplify the current framework, and allowing for specific exemptions for energy retrofit projects in public and social housing to tackle energy poverty. Ensure that the next framework entering into force in 2020 defines cities resilience and energy transition as a priority.

**Conclusions**

Europe’s energy system is changing rapidly. The energy actors of today and tomorrow are much more decentralised, cross border and diverse. As part of this, cities and local authorities have a greater role than ever before in EU climate and energy policy – they are the drivers of ambition, the delivery agents and communicators of the energy transition. Cities can be the ambassadors of the energy union, working with local energy companies and citizens to communicate and re-design energy systems.

The Energy Union and its governance structure must reflect this. The governance system needs to recognize the diversity and innovation at the local level and provide the enabling framework to engage and support this new wave of actors. Our core recommendations to do this are:

1. **Recognition**: The Energy Union governance should recognise the role of local actors, their ambition and political commitment. National Energy and Climate Plans should be required to take into account city and sub-national strategies and report on these. In particular, city Sustainable Energy Action Plans (SEAPs) under the Covenant of Mayors could showcase good examples of legal frameworks that incentivise and support the energy transition.

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15 “Europe’s local and regional governments have sent a strong signal that European politics needs to urgently tackle the problem of spiralling energy poverty. The right path to dealing with this worrying issue must be through renewable energy which requires investment at a regional level. Using EU structural funds, my region has become a true model for this approach: by investing in green energy locally we are starting to win the battle against energy poverty.” - Christian Illidits (PES), member of Austria’s Burgenland regional parliament - Rapporteur of CoR opinion on state aid guidelines

The role of local actors in the Energy Union

1. Inclusion of Mayors: The role of Mayors should be included in the National Energy and Climate Plans (NECP) process.

2. Clear signals: The governance system should have clear long term goals and intermediate targets enshrined in law, backed by strong political commitments and regular reviews. This should give cities clear long term signals on the low carbon transition – what the priorities are and how they will be achieved.

3. Technical assistance: Scaled up technical assistance programmes such as the EIB’s JASPERS and ELENA are needed to support more cities and regions to aggregate smaller low carbon projects and secure investment in the ambitious projects they want to deliver. As part of this, the newly created European Investment Advisory Hub should prioritise support for cities to develop low carbon projects under the EFSI.

4. Budgets and financial accounting: Account for energy efficiency investment as capital infrastructure spending in local governments budgets so that EE projects are shielded from political uncertainty, and their economic benefits fully recognised.

5. Remove legal barriers such as state aid: The European Commission should a) define specific guidelines for city-level action, to simplify the current framework; b) Allow for specific exemptions for energy retrofit projects in public and social housing to tackle energy poverty; c) Ensure that the next framework entering into force in 2020 defines cities resilience and energy transition as a priority.

About E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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