

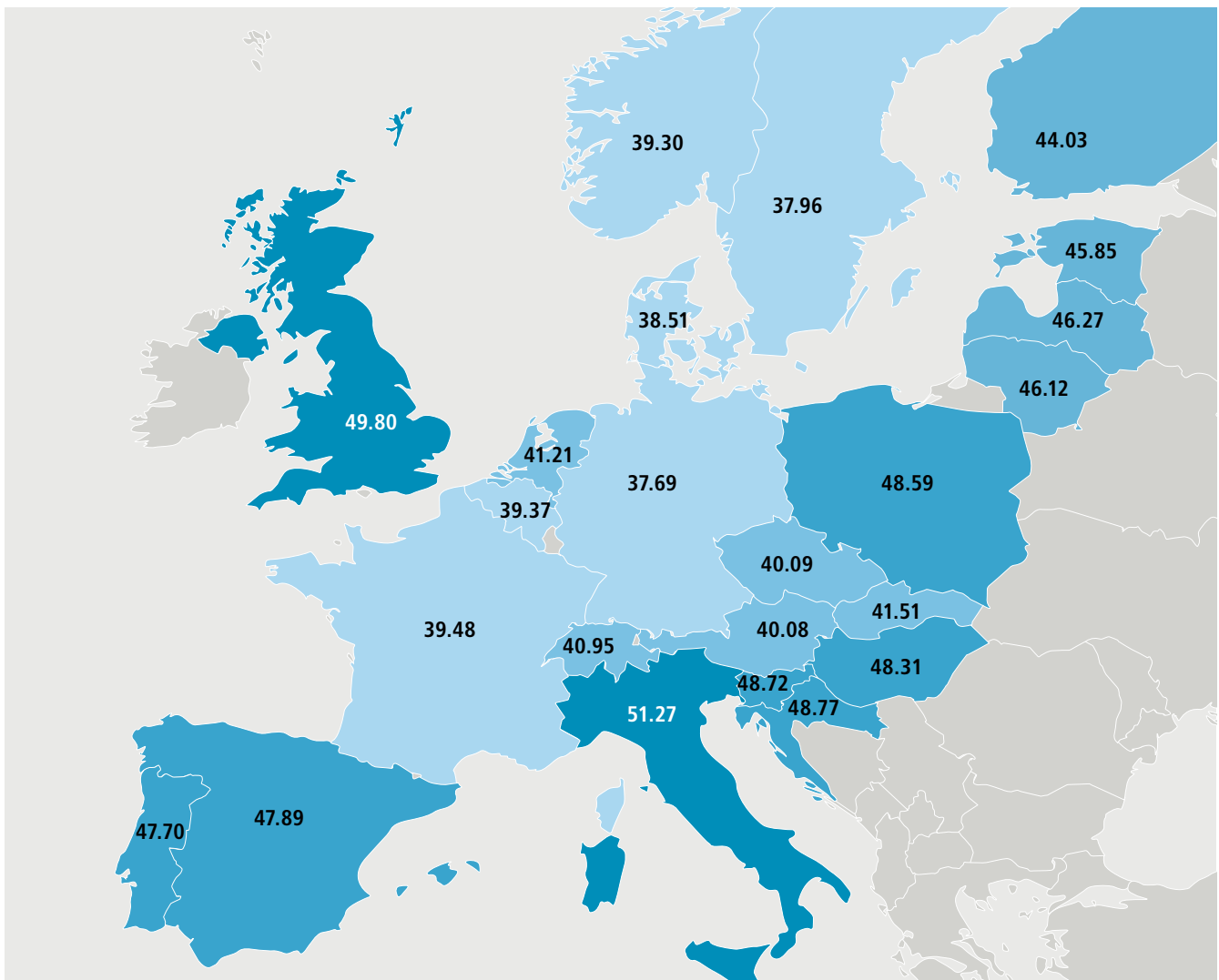
AT A GLANCE – ENERGY EFFICIENCY NR. 3

Advantages from the company's perspective

Under current conditions, the industry in Europe has a cost-efficient savings potential of **20 to 40 percent** of primary energy. Cost-efficient means: **short amortization periods** or immediate cost savings when **outsourcing (contracting)** the implementation of measures. A

corresponding reduction in energy costs thus leads to competitive advantages. In addition, cost savings and income can be generated by fitting PV systems to already built-up areas such as the roofs of factories, promoting **self-sufficient energy generation** and increasing the **sale of surplus capacity**. The decisive factor in this orientation is the prevailing level of energy prices.

Figure 3:
Spot prices for electricity in Europe 2019 (EUR/MWh)¹



¹ Entsoe (2020)

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Figure 3 illustrates the significant differences in European electricity prices. Countries with the highest electricity prices – UK and Italy – represent strong incentives for significant savings. Both countries are increasingly exploiting this potential. The UK and Italy play a pioneering role in achieving the targets within the EU. Furthermore, the figure shows that there is a north-south divide in Europe. Especially for Southern European companies, this results in a high potential to save costs. However, this is only one of the incentive factors. The electricity prices shown are solely based on their quotation on the stock exchange. Other price-determining components – such as taxes and grid fees – are added.

Composition of the electricity purchase price:

The overall costs are far higher than the stock market prices and thus put regional differences into perspective. In Germany, for example, the stock exchange price represents only a quarter of the purchase price.² The remaining 75% is made up of grid fees, taxes and the EEG levy.

Electricity is traded on the European Energy Exchange (<https://www.eex.com/de/>)

Surveys show, however, that companies shy away from the high initial investment in energy-efficient technologies. Instead, they prefer to use available equity and debt capital for investments in their core business. In addition, several EU member state governments also have doubts about the implementation of the EU Commission’s “Energy Efficiency First” approach. They fear disadvantages from the resulting burdens on the economy.³ In order to dispel these concerns, the advantages must be better presented and appropriate framework conditions must be created in order to use the existing potential in a competitive manner.

Energy Efficiency Measures – Realising current and future potential in companies

Whereas in the past the energy transition was mainly related to the energy sector, the focus is increasingly shifting to so-called sector coupling. This means that in addition to the pure generation of energy and the associated emissions, the industry, building and transport sectors are increasingly being considered. Challenge of energy efficiency is that many few investments make the difference and therefore need multiple parties to pull on one and the same string.

Example buildings:

The building sector is responsible for 40% of energy consumption in Europe. As the largest sectoral energy consumer, buildings also account for 36% of climate-damaging emissions. Especially because some of the existing buildings in the EU are very old – 35% of the buildings are more than 50 years old – there is massive potential to reduce energy consumption through renovation.⁴



Energy-efficient electrification offers an opportunity across all sectors to increase the use of renewable energies and reduce emissions accordingly. Including the building and transport sectors in emissions trading or pricing emissions – as already announced in Germany – will significantly strengthen the incentives for energy-efficient action.

*„Only when emissions have a price
will our behavior change.“*

(Ursula von der Leyen; President of the European Commission in her speech opening the plenary session of the European Parliament; 16.07.2019)

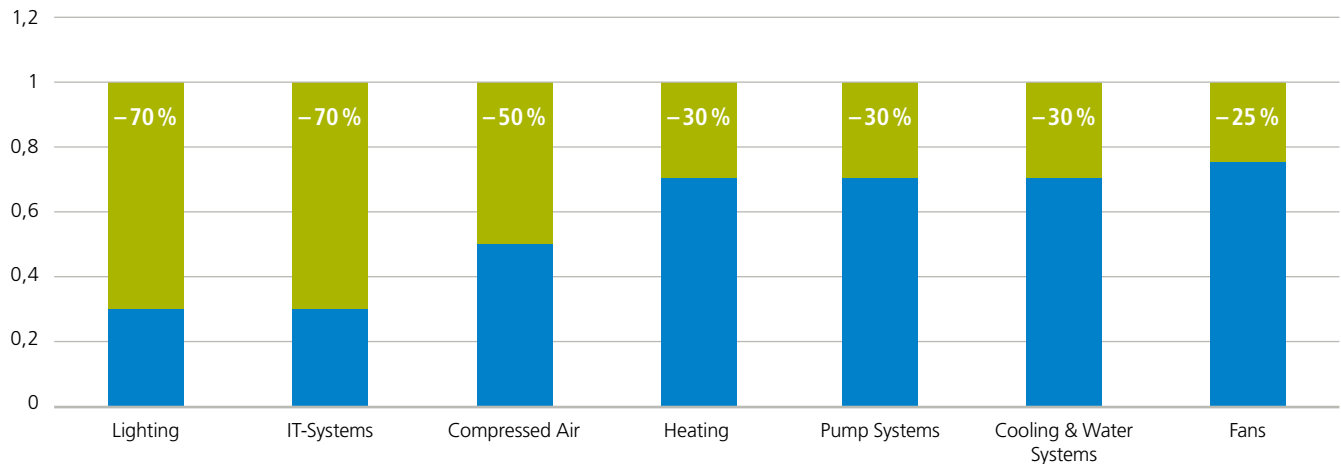
² Bundesnetzagentur (2019)

³ <https://euobserver.com/energy/141148>

⁴ https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en#:~:text=Buildings%20are%20responsible%20for%20approximately,building%20stock%20is%20energy%20inefficient.

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Figure 4: Savings potential in cross-sectional technologies⁵



Contracting – savings from day 1

Especially for small and medium-sized enterprises, expenditures compete with investments in the core business. Investments in energy efficiency are often postponed despite the benefits and direct savings that ensure associated payback. So-called contracting offers ideal conditions for reconciling these competing objectives. Contracting is the transfer of the implementation of energy efficiency measures to a specialized service provider, which takes over the optimization of the facilities as well as the financing and implementation of energy-efficient measures. This approach offers the opportunity to benefit from the savings directly after the implementation.

The relative negative costs of energy efficiency measures enable a constellation in which all actors can generate benefits.

1. Companies realize cost savings through energy efficiency measures from day 1, as the savings exceed the costs for service providers. This does not reduce the available investment scope for the core business. Furthermore, contracting does not lead to a burden on the balance sheet that could affect refinancing conditions.

2. The energy service provider generates income from the implementation of the measures.
3. Investors are offered promising, seminally investment opportunities with attractive returns.
4. Society benefits from the reduction of negative external effects, while an additional macroeconomic growth effect is achieved, which in turn leads to a positive influence on the labor market.

The cost-efficiency already achieved will be significantly enhanced by ongoing innovation, the use of economies of scale and the expansion of the use of efficient technologies. These framework conditions and good future prospects mark an attractive point of entry that promises stable earnings for all market players.

Energy efficiency creates a win-win-win-win constellation.

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https://www.aquila-capital.de/fileadmin/user_upload/PDF_Files_Whitepaper-Insights/2020-08-24_White-Paper_EnergyEfficiency_EN_FINAL.pdf



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⁵ German Federal Ministry of Economics and Energy (2020)

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A publication of Aquila Capital Investmentgesellschaft mbH. As of August 2020. Author: Peter Schnellhammer