

# Between a Rock and a hard place

## How the cost of energy efficiency has been inflated

The European Parliament, Commission and Member States are currently discussing what the EU's 2030 energy efficiency target should be. And while the benefits of higher ambition are well known – climate action, jobs, better living standards, energy security – policymakers tend to focus most on investment costs.

This is why the discount rate which the Commission uses to estimate costs is so crucially important. A higher rate leads to calculations showing higher costs, making a more ambitious 2030 target look unattractive.

In climate and energy modelling, the discount rate is the value used to assess the costs of different scenarios. Put simply, the higher the rate, the higher the costs – and the less attractive the outcome. A very high discount rate in policy modelling is a disincentive, rather like a high interest rate on a house loan leading to punitive annual instalments.

So what discount rate is the Commission using in its modelling? For buildings, until two years ago, it was an astonishingly high 17.5%. This was higher than the rate used for oil companies operating in conflict zones. The Commission has since lowered the rate to 10%. But this is still much more than the discount rates used by the Member States. Already in 2015, the Member State average for buildings was a rate of 5.7% (see map).\*

What does this mean? In 2016, using a 10% rate, the Commission recommended a 30% by 2030 target on cost-effective grounds. But if the same calculations were carried out using a Member State 5.7% rate, costs would be much lower, and the cost-effective potential significantly higher – in line with the Parliament's call for a 35% target, which several Member States are also backing.

Policy decisions for the EU's 2030 efficiency target are being based on inflated cost estimates. If a more realistic discount rate was used, there would be a much stronger case for higher ambition. This in turn would have big, positive, socio-economic impacts, and help the EU to implement the Paris Climate Agreement.

'The Commission [...] assumes unrealistically high investment costs through the use of a [...] 10% discount rate rather than a more realistic, nuanced cost and benefit analysis.'

*Institutional Investors Group on Climate Change (IIGCC), a group of investment and pension funds representing over 21 trillion euros.*

\*ecee, Ecofys, November 2015, 'Evaluating our future. The crucial role of discount rates in European Commission energy system modelling'. [www.ecee.org/policy-areas/discount-rates/](http://www.ecee.org/policy-areas/discount-rates/)

**Between a Rock and a hard place: in its background analysis for the negotiations on the EU's 2030 energy efficiency target, the European Commission used a discount rate which is almost double the average rate used by national governments and regions. Only Gibraltar uses the same discount rate for buildings as the Commission.**

- <5% discount rate
- 5-9% discount rate
- 10% discount rate
- Data unavailable



European Council for an Energy Efficient Economy

