## Energy Efficiency Renovation Financing Models for Homeowners and Net Present Value Analysis; Case Study from India

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**ABSTRACT**

Lack of financing mechanisms in India have been identified as a major obstacle in achieving energy efficiency (EE) and warrants focused research to identify barriers and propose innovative financial models. This paper presents details of selected Government of India initiatives that highlight interlinking strategies of energy efficiency renovations, their financing models, and institutional policies needed for their implementation. These initiatives show that residential buildings have tremendous scope for retrofitting as they successfully attract finances through Energy Service Companies (ESCO) and Renewable ESCO (RESCO) routes. This research highlights understanding of financial and technical barriers in energy efficiency retrofitting for existing residential buildings. It also discusses financial models and technical interventions being employed in energy efficiency residential retrofitting projects and demonstrates a retrofitting cost model for an actual case study project for composite climate using various physical and technological interventions. The work includes developing retrofitting scenarios through Government initiatives of technical interventions, then performing energy saving calculations, and finally developing cost models showing the actual savings and payback periods for the potential intervention’s investments. These steps led to the development of a potential cost model which can assist both homeowners and energy professionals in identifying and implementing energy retrofitting measures in the residential building sector.

Key words: Energy efficiency, financing mechanisms, ESCOs, energy renovations, energy interventions, residential buildings

# INTRODUCTION

The construction sector’s greenhouse gas (GHG) emissions accounts for approximately 40% of global GHG emissions (WBCSD, 2018). Furthermore, it is estimated that the major contributors to these emissions are the related to materials, heating, cooling, and lighting of buildings and infrastructure. For instance, in the EU, 40% of the total energy consumption is associated with the building sector, out of which residential sector accounts for 25% (Tzeiranaki, et al., 2019). Thus, there is a large potential of reduction in energy consumption expected to be achieved in the residential building sector. Similarly, it is estimated that by 2030, urban population of India would go up by 250 million people, and that will require 700-900 million square meters of new residential and commercial space (Akhoury, 2021).

In India, building sector utilises around 33% of the total energy produced in the country which is second highest after industrial sector (45%) (Shandilya and Ghorpade, 2019). The breakup of energy consumption is in figure 1 while figure 2 gives a breakup of energy use as per user profile. Therefore, in greening the construction sector therein lies immense opportunities and gains.

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Figure 1 : Percentage of energy demand; sector wise (left) and building type (right) in India 2015-16 (Shandilya and Ghorpade, 2019)

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Figure 2 Electricity consumption profile in residential and commercial buildings India (Shandilya and Ghorpade, 2019)

Research from energy renovations in existing buildings in the EU highlight the key challenges plaguing the efforts. A key inefficacy is related to motivational measures to encourage homeowners to renovate when faced with the option (Labanca and Bertoldi, 2018). Amongst the barriers responsible are – split incentives, lack or inadequate information about costs and benefits, high upfront investment costs, decision-making process, lack of access to finance, and scarcity of available private capital (Bertoldi et al., 2019). From the perspective of financial institutions, the barriers are high transaction costs, small project sizes and perceived risks associated with credit or estimated energy savings (Cooremans & Schönenberger, 2019). Furthermore, the duration of the financing may not be suitable for long pay-back of energy renovation projects in buildings (Bertoldi et al., 2019).

India has been behind other rapidly developing nations in this regard and needs to identify and implement energy efficiency renovation measures in existing buildings during the current dynamic growth period of its economy. Lack of financing and related policy mechanisms have been identified as major obstacles in promoting and implementing energy renovation initiatives. Therefore, this area warrants focused research to identify barriers and study of successfully implemented innovative financial models for building energy retrofits.

# RESEARCH AIM AND OBJECTIVES

The proposed research addresses the existing knowledge gap in the areas of interplay between institutional energy efficiency policy mechanisms and financial models for achieving energy efficiency in the existing residential built environment in India. It identifies financial models for energy efficiency interventions in existing built environment and analyses the net present value of energy savings. The research consists of following objectives.

1. To evaluate the existing policies of energy efficiency renovations, their institutional set-ups, and policy mechanisms from EU and India.
2. To develop an understanding of financial and technical barriers in energy efficiency renovations of existing residential buildings.
3. To analyse the literature and selected Government of India and EU initiatives for interplay between financial policy instruments and energy efficiency renovations policies and assess potential gaps.
4. To develop a retrofitting cost model for an actual case study project for composite climate in New Delhi, India, and propose feasible financial models based on net present value evaluation.

# LITERATURE REVIEW

## Energy efficiency renovations and building performance

Whilst ‘renovation’ is used to describe different physical interventions in buildings including modernisations, restorations, or upgrades, an energy efficiency upgrade or renovation is the culmination of several interventions that generate different levels of energy savings (Bertoldi et al., 2021). Furthermore, there is relatively few in-depth literatures on the ‘depth’ of renovation (ambition of homeowners) and the relative energy savings or energy performance generated once the renovation is completed (Economidou, Laustsen, Ruyssevelt, Staniaszek, & Strong, [2011](https://wires.onlinelibrary.wiley.com/doi/10.1002/wene.384#wene384-bib-0033); Shnapp, Sitjà, & Laustsen, [2013](https://wires.onlinelibrary.wiley.com/doi/10.1002/wene.384#wene384-bib-0097); cited in Bertoldi et al., 2021). Therefore, the most widely accepted understanding of energy renovations is related to measuring the energy performance of interventions relating to building envelope or the building’s technical systems and can include installations of renewable heat/cooling generation and electricity systems as well as energy management systems. This research will identify renovation interventions supported by Government of India to evaluate the energy performance on a case example.

## Building types

As the benefits and drivers of energy efficiency renovations for each building type differ, the three main building types are as per Shnapp et al., (2020) are.

1. Graphical user interface

   Description automatically generatedCommercial buildings (mainly used for business purpose) - mainly offices, restaurants, hotels, retail, and hospitals
2. Public buildings - owned or occupied by national or regional governing bodies and are often government offices or agencies
3. Residential buildings - multi-family dwellings, semi-detached and single-family homes

Energy Conservation Building Code of India (2017) classifies all building types into 6 categories as in figure 3 not including the residential sector which is covered separately in Eco-Niwas Samhita (2018) as it considers the significant energy consumption from homes and recognises the scope in term of energy conservation. This works will briefly touch on the intervention tools for the public sector, whilst focusing largely on the residential sector.

Figure 3 Building Classification as per ECBC (2017)

# Energy efficiency renovations in the built environment: Implementation Barriers

Whilst there is a tremendous need to the extent of 133 billion euros per year for investment in building energy efficiency renovations (Shnapp et, al., 2020) however, there are technical, functional, demand side and economic constraints hindering the uptake of deep renovations (Hamilton et al., 2017). It is found that homeowners are reluctant to take up deep renovations mainly due to,

* Lack of finance
* Lack of knowing about efficient renovation measures
* Lack of information on the wider benefits
* Lack of knowledge of whom to contact
* Lack of expertise
* Lack of trust in construction companies
* Overall complexity of works

As per Klimovich (2019; cited in Shnapp et, al., 2020), from an investor’s perspective, the barriers hindering the advancement of energy efficient investments are,

* Risky investment from lack of information / experience and insufficient robust data
* Decentralized projects that are not aggregated –the difficulty of investing large sums in small projects
* Lack of standardization of measures
* Energy saving benefits not properly monetised

The underlying premise of energy efficiency programmes and policies is that they are commonly designed exclusively based on energy savings, which often leads to an underestimation of their full impact which includes non-energy benefits (NEB) (Shnapp et al., 2020). However, the EA IBC Annex 56 states “The term co-benefits include all effects of energy related renovation measures besides reduction of energy, CO2 emissions and costs” (Cappelletti, et al., 2015). It is only through the inclusion of indicators of both energy renovation benefits and non-energy benefits that can drive existing building standards to nearly zero in an economic fashion (Gopalan, 2018). A list of micros (private) indicators of multiple benefits is in Figure 4.

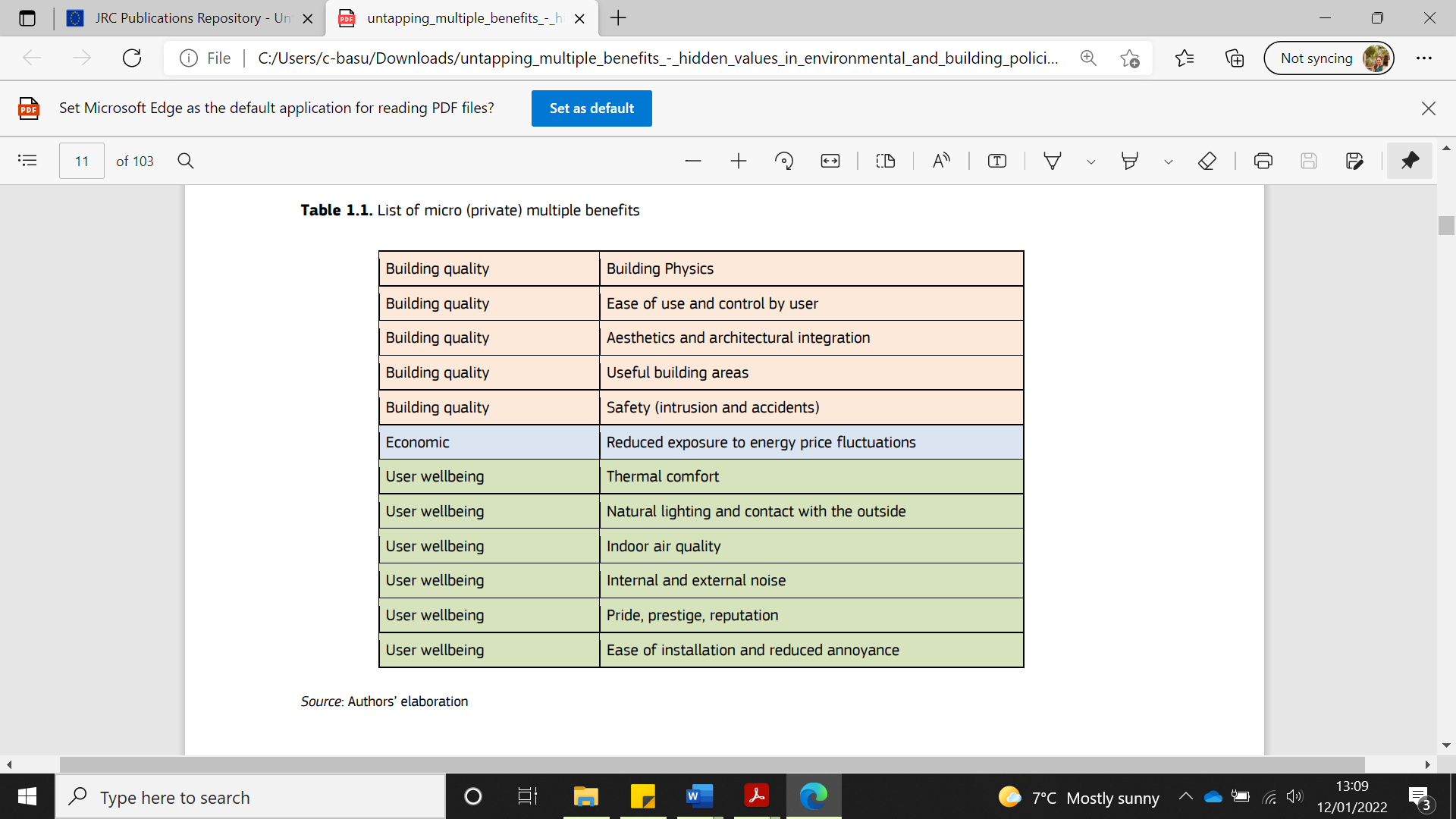


Figure 4 List of micro (private) factors of multiple benefits (Source: Shnapp et al., 2020)

A brief chronological review of literature of energy efficiency renovations in the built environment highlight that the major constraints to increased financing and implementation are inherently institutional in nature. This is partially because financial institutions are unable to enforce or govern energy efficiency regulations, thus, the expected impacts cannot be realized (Taylor et al.,2008). Furthermore, many sectors have principal-agent or ‘‘split-incentive’’ barriers, where one entity, such as a builder, installs equipment while another one, such as an owner or tenant, pays the electric bills. Additionally, lack of information and awareness amongst various stakeholders lead to market failure in the renovation sector. This has also been the case with some Organization for Economic Cooperation and Development (OECD) countries, where they have failed to implement the policies effectively as they faced similar pervasive barriers (IEA, 2009). Engau and Hoffman (2009) state that if mechanisms could be improved, firms can participate in early stages of policy making process that will allow for more efficient policy implementation and increase a regulation’s effectiveness. But firms concerned by a new regulation are typically exposed to regulatory uncertainty that is intrinsic to policy formulation (Hoffmann et al., 2008). Moreover, designing multilateral environmental regulations are particularly difficult as they only specify environmental goals and require individual governments to authorize national regulations to achieve these goals (Christmann, 2004).

## Energy efficiency financing and role of financial institutions

Furrer et al. (2012)’s research into the effect of bank and financial institutions on climate change show that banks are capable of steering investments in green technologies and adjust loan conditions, but very few financial institutions take such substantive action. Moreover, climate change and its related risks pose potential impacts on their earnings and asset quality in mid to long-term. Conley & Williams (2011) state that the financial institutions routinely fund projects which produce significant amounts of greenhouse gases and consume extensive energy like construction and manufacturing. Currently, financial institutions are increasingly facing societal pressures to adopt sustainable business practices and to increase the disclosure of their project finance and insurance transactions (van Putten, 2008). In addition, international standards and regulatory policies are being developed to assist financial institutions in providing financial support to low-carbon economies.

In the recent years, varying forms of sustainable finance have grown rapidly in recent as financial institutions are incorporating Environmental, Social and Governance (ESG) investing approaches (OCED, 2021). Furthermore, ESG is now that leading form of sustainable financing in several OECD jurisdictions, having moved away from more traditional models. A report from Bloomberg (2021) shows that forms of ESG investing have risen to almost USD 40 trillion in 2021. Moreover, central banks across EU are in the process of integrating ESG assessments into investment approaches as a tool used to align with a transition to low-carbon economies (Bua, 2021, Bernardini E., 2019, Lanza A, 2020; cited in OCED 2021).

In 2013, India was the foremost nation to make corporate social responsibility mandatory in its Companies Act of 2013 (sebi.co.in, 2014). Furthermore, this tenet was included in the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business released in 2011 before being included in the Companies Act 2013. In May 2021, SEBI, replaced Business Responsibility and Sustainability Report (BRSR) with Business Responsibility Reporting (BRR) under ESG global policy (sebi.co.in, 2021). Such standards are critical for encouraging the financial institutions to recognize their responsibility to consider the environmental impacts of the projects they finance.

## EE Policy Evolution in India

The Government of India (GoI) has many programs in place to accelerate the growth of EE in buildings. The Energy Conservation Act (EC Act) was enacted in 2001 with the goal of reducing energy intensity of Indian economy (powermin.nic.in, 2018). Bureau of Energy Efficiency (BEE) was set up as a statutory body on 1st March 2002 at the Central Government level to facilitate the implementation of the EC Act. The Act provides regulatory mandate for standards and labelling of equipment and appliances; energy conservation building codes for commercial buildings; and energy consumption norms for energy intensive industries. In addition, the Act enjoins the Central Government. and the Bureau to take steps to facilitate and promote energy efficiency in all sectors of the economy. The EC Act also directs states to designate agencies for the implementation of the EC Act and promotion of energy efficiency in that state. The chronological evolution of energy conservation codes in India is presented in figure 5.

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Figure 5 Energy Conversation Building Code (ECBC) India Evolution (Shandilya & Ghorpade, 2019)

The National Mission for Enhanced Energy Efficiency (NMEEE) is one of the eight missions under the National Action Plan on Climate Change (NAPCC) (beeindia.gov.in, 2017). NMEEE aims to strengthen the market for energy efficiency by creating conducive regulatory and policy regime and has envisaged fostering innovative and sustainable business models for the energy efficiency sector. The NMEEE spelt out four initiatives to enhance energy efficiency in energy intensive industries.

1. **Perform, Achieve and Trade Scheme (PAT)**, a market-based mechanism for industries to enhance the cost effectiveness in improving the Energy Efficiency through certification of energy saving that can be traded.
2. **Market Transformation for Energy Efficiency (MTEE),** for accelerating the shift to energy efficient appliances in designated sectors through innovative measures to make the products more affordable.
3. **Energy Efficiency Financing Platform (EEFP),** for creation of mechanisms that would help finance demand side management programmes in all sectors by capturing future energy savings.
4. **Framework for Energy Efficient Economic Development (FEEED),** for development of fiscal instruments to promote energy efficiency.

The key components of NMEEE consist of creating and promoting the energy efficiency financing platform, setting up Partial Risk Guarantee Fund for Energy Efficiency (PRGFEE) and Venture Capital Fund for Energy Efficiency (VCFEE), and developing innovative financial derivatives of performance contracts and fiscal and tax incentives for investment in this sector (NMEEE, 2010). PRGFEE is a risk sharing mechanism to provide commercial banks with a partial coverage of risk involved in extending loans for energy efficiency projects (Deloitte, 2013). VCFEE is to meet the requirement of equity investments through venture capital in the energy efficiency projects which eases a significant barrier from the viewpoint of risk capital availability to the Energy Service Companies (ESCOs). It is for this reason that this work will focus on ESCOs as the primary route of energy efficiency financing.

## Literature study on efficiency financing in India

It is pertinent to mentionthat seminal works on energy efficiency financing in the Indian context are limited. In addition, most of the literature dates to 2008-09 which is right after the implementation of Energy Conservation Act (2001) when Bureau of Energy Efficiency come into existence (2007). The table 1 briefly summarizes the key literatures in energy efficiency financing in India.

**Table 1 Summary of literature findings on energy efficiency financing in India**

|  |  |  |  |
| --- | --- | --- | --- |
| Author | Literature on energy efficiency financing in India | Year | Summary of findings |
| Kutan, AM, Paramati, SR, Ummalla, M & Zakari, A | Financing Renewable Energy Projects in Major Emerging Market Economies: Evidence in the Perspective of Sustainable Economic Development | 2018 | This research has explored the role of Foreign Direct Investment (FDI) on promotion of promotion of renewable energy consumption. The authors findings confirmed that a 1% increase in FDI inflows and stock market capitalization raises renewable energy consumption by 0.009% and 0.002%, respectively. |
| Kumar S.S, Varma, P, Prabhakar K.L, Talwa, C.K | Energy efficiency in India: Achievements, challenges, and legality | 2016 | This research has explored the main legal Government of India enforced Commissions and Acts that are aimed at improving the current energy deficit in the country; Energy Conservation Act (2007, 2010). This is explored in detail in the current work under ‘Government of India Initiatives’. |
| Sarkar, A, Singh, J | Financing energy efficiency in developing countries—lessons learned and remaining challenges | 2010 | This research explored financing energy efficiency in developing countries to identify key factors of various programmatic approaches and financing instruments applied successfully for delivering energy efficiency solutions. Proposed initiatives as suggested by authors which could be taken forward by international agencies and development financial institutions,   1. International Energy Efficiency Certification Agency 2. “International Year of Energy Efficiency” 2011 Public Campaign 3. Global Energy Efficiency Public–Private Partnership 4. Global Energy Efficiency Programmatic Fund 5. International Industrial Energy Efficiency Technology Financing Facility 6. Global Standard Offer for Demand Side Energy Efficiency 7. Bundle Public Facilities for Scaled-Up Investments   Improved Urban Planning and Design |
| Prasad Painuly, J. | Financing energy efficiency: lessons from experiences in India and China | 2009 | This research explored the experience of a three‐country United Nations Environment Programme/World Bank Energy Efficiency Project (involving China, India, and Brazil) for addressing financing barriers for energy efficiency programmes. The study concluded that ESCO industry was advanced in China due to trust of banking sector, but India was more experienced in dealing with energy efficiency projects in general. |
| Bhattacharyya, S.C. | Financing Energy Efficiency: Lessons from Brazil, China, India and Beyond | 2009 | This book explored the abovementioned three‐country United Nations Environment Programme/World Bank Energy Efficiency Project (involving China, India, and Brazil). The second part of the book studies the success and failures of 13 global case studies of various energy efficiency project financing mechanisms including from USA and Canada. The case study from India is on capacitor leasing. Ahmedabad Electric Company (AEC) implemented a capacitor leasing program in association with vendor ESCO, Saha Sprague Limited (SSL). SSL received debt financing from Indian Renewable Energy Development Agency (IREDA). At the core of this transaction was the performance guarantee that the ESCO was able to offer to the utility. |

**Financial instruments and Energy Service Companies (ESCOs)**

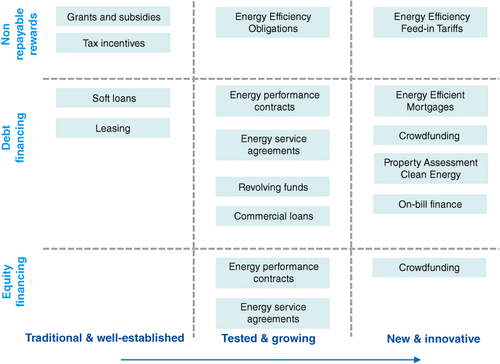
Financial instruments for energy efficiency can be either debt or equity financing (Bertoldi et al., 2020). Figure 4 highlights the instruments from conventional (subsidized loans) to emerging models (crowdfunding, dedicated renovation saving accounts etc.) As shown in Figure [6](https://wires.onlinelibrary.wiley.com/doi/10.1002/wene.384#wene384-fig-0001), they are classified according to type (non-repayable rewards, debt financing or equity financing) and level of market saturation (traditional/well established, tested and emerging, and new and innovative). ESCOs are both debt and equity.

Figure 6 Overview of current financial instruments supporting energy renovations in the EU (Bertoldi et al., 2020)

Amongst the early research works energy performance contracts and energy service agreements three broad financing options for energy efficient renovations are identified (Bertoldi et al., 2006) – ESCO (energy service company) financing, third party financing, and energy user/ customer financing. ESCO financing for an energy savings performance contract (EPC) is a model where an ESCO achieves energy savings at a property as a service. An ESCO will assess the efficiency opportunity, purchase, and install equipment necessary to improve performance, and perform other energy saving measures. Most ESCOs will provide a financing option for these services as well, but depending on the ESCO, the building owner may be required to seek outside financing. There are two most used models in ESCO financing (iea.org, 2018) - Shared Savings and Guaranteed Savings (Figure 7).

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Figure 7 ESCO financing model (Bertoldi et al., 2006)

Generally, the transaction costs of a typical ESCO project is higher in comparison to other financial solutions (Nolden & Sorrell, [2016](https://wires.onlinelibrary.wiley.com/doi/full/10.1002/wene.384#wene384-bib-0080)), partly because ESCOs assume the technical, and financial risks that normally an end-user would have to bare. Thus, ESCO projects are usually undertaken by large energy-consuming end-users. However, there are a few limited examples of ESCO projects in large multifamily and social housing residential buildings in Germany and Singapore (Boza-Kiss et al., [2017](https://wires.onlinelibrary.wiley.com/doi/full/10.1002/wene.384#wene384-bib-0020)).

# Government of India Initiatives

Government of India initiatives are selected to analyse energy renovation financing models. These were sourced through the database of Bureau of Energy Efficiency (beeindia.org, 2017), United States Agency for International Development (usaid.gov/india, 2016), National Housing Bank (nhb.org.in, 2016), and Press Information Bureau of India (pib.nic.in, 2016). The selected initiatives are from the public sector projects and programmes to understand successful implementation of government programmes.

1. In 2015, a central government agency, NITI Aayog (Erstwhile Planning Commission of India), set a national example by initiating two phases of energy efficiency interventions for its headquarters in New Delhi, India. The actual process was carried out in two phases through ESCO Shared Saving Model; Phase 1 targeted 60% of saving of actual load (cooling, lighting, and appliances) through solar panels (Renewable Energy Service Company or RESCO), while Phase 2 was the retrofitting for the remaining load through replacement with 5-Star Labelled Energy Appliances and LEDs. NITI Ayog as client paid the upfront cost, and Energy Efficiency Services Limited (EESL) a Public Sector Unit of Ministry of Power delivered the project with 10% saving to client and 90% to EESL over 4 years contract. A break-up of financials for the project is in figure 8.

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Figure 8 Financials calculated for NITI Ayog energy renovation project (pin.nic.in, 2016)

1. GoI launched Bachat Lamp Yojana (BLY) in 2009, a public-private partnership between the Government, private sector CFL suppliers and State level Electricity Distribution Companies to provide CFLs at the same cost as Incandescent Bulbs. The plan was to make up the cost differential through carbon credits earned which could be traded in the international market under Clean Development Mechanism (CDM) of Kyoto Protocol. Upgrading this scheme further and keeping in tune with the technological advancements, the UJALA (Unnat Jyoti by Affordable LEDs for All) scheme for Domestic Efficient Lighting Programme was launched in 2015. The major government owned ESCO, Energy Efficiency Services Limited (EESL), was charged with the implementation of this scheme. Under this scheme EESL undertook the massive nation-wide disbursement of affordable LED bulbs on either upfront basis or through on-bill financing. EESL procured LED lamps in bulk and initiated a healthy competition amongst LED manufacturers and eventually the price of LEDs went down by almost 90% within a year, thereby making the it consumer friendly. This was a hugely successful scheme by EESL as it led to the replacement of 770 million residential LEDs, a total energy savings of 100 billion kWh, and Green House Gas (GHG) reduction of 80 million tonnes annually (energy.gov, 2016).
2. This financial model has been replicated at state-levels also, with one example being the LED replacement scheme between EESL and the Electricity Department of the State of Puducherry (2015). The financial model herein is that JERC (joint electricity regulatory commission) allows PED (Puducherry Electricity Department) to provide Rs.2.5/Unit for every unit of energy saved, which is then passed on to EESL that provides LEDs/CFLs to households at a nominal rate. The energy efficiency pay-out helps EESL to recover its initial investments. This has been hugely successful as PED realised further savings even after the EESL payments.
3. An ambitious project by the Government of India is the Grid Connected Rooftop and Small Solar Power Plants Programme (2013-2022) which is under a national capital subsidy scheme for installation of solar thermal systems. Though incepted in 2013, the scheme it was slow to pick pace, and the first phase ended in March 2017. The financial model here being that Renewable ESCOs install, own, and operate renewable energy systems through financial tie-ups with FIs and then provide energy supply to consumers. There are not many uptakes worthy of successful cases so far in the urban areas, but many rural areas are benefiting from the scheme for roof-top hot water systems and solar cookers.
4. In 2012, KfW-NHB Energy Efficient Homes Programme was launched. This was a joint programme of KfW, the Federal Bank of Germany and National Housing Bank (NHB) of India. Under this program, primary lending institutions were eligible to receive NHB-Refinance for home-owner loans to fund the purchase of certified energy efficient apartments.
5. In 2017, Energy Efficient Model Building (EEMB), an ambitious project of BEE to achieve 1 million sqm of Energy Conservation Building Code (ECBC) compliant commercial buildings across cities located in different climatic zones was launched. Through this project, selected buildings received technical and financial incentives to demonstrate compliance with ECBC. Incentives were given to private developers as ECBC is only mandatory for public buildings. However, the main barrier was that this scheme was only open for newly constructed buildings, thereby leaving out the existing building stock. The above-noted model was partially based on KfW - Gesobau Scheme in Berlin, a modernising scheme for the Märkisches Viertel in Berlin with the aid of promotional loans from KfW Bankengruppe.

# EU Initiatives

Between 2008 and 2015, Gesobau AG invested €480 million to transform 13,000 apartments into modern and comfortable units that only consume a fraction of their previous energy use. KfW Bankengruppe provided low-interest loans from various development schemes to fund the project (Kfw.de, 2014). In a case study by Bertoldi et al. (2021), they elaborate on an innovative mechanism ‘soft loan scheme’ wherein public funding is utilized to decrease the cost of loans disbursed by private bank, and this has been successfully adopted by German public bank KfW. Further to the study by Bertoldi et al. (2021), KfW has been disbursing subsidized housing renovation loans for several years and has also come up with a label system ‘KfW energy efficient house” which assess existing houses against new buildings for envelope interventions and interest rate and duration of the loans are more attractive for project reaching higher energy efficiency. Furthermore, loans are also available for individual measures. KfW also gives grants for engineering and construction supervision (50 % of costs, up to €4,000) and for the investment (up to €15,000). Grants are often present in soft loan scheme because they reduce the upfront costs for the building owner. Thus, ‘soft loan scheme’ mechanism can be a reduced risk option for building owners and become a very efficient way to finance energy retrofitting of buildings. This mechanism has high applicability in Indian context.

In the EU model ‘one-stop shops” (OSS)’, the responsibility in placed hands of a single supplier who is in-charge of the energy renovation project from start (Boza-kiss et al., 2021). The underlying premise of this model is the transformation of complex decision-making by customers in the renovation value chain to establishing a bridge between the fragmented supply side and the also fragmented demand side. Furthermore, the main difference between ESCO and OSS is that OSS offers pre-defined packages of renovation options for homeowners, collaborate with contractors, and suppliers. Figure 9 presents the OSS model. However, such initiatives are yet to find a place in GoI initiatives. This concept can be equally beneficial to Indian existing building market as the model offers solution to the barriers of energy efficiency renovations.

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Figure 9 One-stop shop model (Brown, 2018)

**Energy efficiency renovation case example**

A case study of energy efficiency renovation for a single-family residential project from New Delhi (composite climate), India is selected for cost model. The case study project is selected to demonstrate the net present value of the physical interventions. The energy saving calculations were performed on EnEffResBuild India software platform (toolkitindia.com, 2017), with various energy conserving measures. For each intervention, total energy saving, upfront cost and payback period is calculated with ESCO financing. The interventions were selected from the literature and government initiatives, and their corresponding products were selected from the market survey. The proposed physical interventions are summed up in Table 2. The financing of the project was done by the clients, whilst ESSL was contracted through shared saving model at 10%-90% sharing between client and ESCO.

Table 2 Proposed physical interventions

|  |  |  |  |
| --- | --- | --- | --- |
| National Energy Mission | Description | Product | Cost (INR) per unit |
|  |
| Star Rating Program by BEE | BEE 5 Star Air conditioner | Voltas 1 ton | 32,500 |  |
| Grid Connected Rooftop and Small Solar Power Plants Programme | Ministry of New and Renewable Energy (MNRE) subsidy through State Bank of India (SBI). 30% of the benchmark cost or the actual project cost, whichever is less. | 100 liter flat plate collector base | 24,000 |  |
| 10Wp (watt peak) per panel, 5-7 watt load for 3-4 hrs | 108.00/per Wp (watt peak) |  |
| EU Directive | Polyurethane Spray Foam Insulation | BASF | 80.00/per sq.mt |  |
| Solar control film | Garware Sun Control Film | 15.00/per sq.ft |  |
| Cool paint | Eco Protect | 15.00/per sq.mt |  |

5 intervention case scenarios were developed which have minimal impact on the structure and its occupants. Since the building is covered from all three sides, East and South side treatment will affect energy savings the most, whereas other sides modification will have negligible effect. LED and appliances are included in all scenarios. Table 3 outlines various scenarios of interventions. All 5 scenarios were analysed various upfront costs, projected energy savings, and net present value analysis (Basu, 2018) The energy analysis was performed with the help of “EnnEffResBuild India” software tool (toolkitindia.com, 2017). This energy efficiency analysis tool was developed by The Energy and Resources Institute (TERI) of India in association with KfW the German Federal Bank, National Housing Bank (NHB) and Fraunhofer IBP. The interventions were identified from the various Government of India schemes. These are non-structural inventions, minimal disruption to the building. Keeping the lighting replacement as constant, the Interventions were individually assessed for energy saving.

Table 3 Energy renovation intervention matrix

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **National Mission** | **Unnat Jyoti by Affordable LEDs for All** | **Star Rating Program by BEE** | **National Energy Mission** | **EU Directive** | |
| Intervention sets | *Appliances- lighting, heating, cooling, cooking* | *Renewable energy* | *Building envelope- exterior wall + roof* | *Building envelope- openings/ windows* |
| Scenario 1 | LEDs | 5 Star Air conditioner (spilt AC) | - | Cool paint, cool roof (polystyrene layer) | Solar control film |
| Scenario 2 | LEDs | 5 Star Air conditioner | Solar water heater | Cool paint | Solar control film |
| Scenario 3 | LEDs | 5 Star Air conditioner | Solar water heater | Cool paint | Solar control glass (low e glass) |
| Scenario 4 | LEDs | 5 Star Air conditioner | Solar panel  Solar water heater | Cool paint | - |
| Scenario 5 | LEDs | 5 Star Air conditioner | Solar panel  Solar water heater | Cool paint | Solar control film |

# Net Present Value and selection of intervention

The net present value method (NPV) calculates the present value of all the yearly cash flows (i.e., capital costs and net savings) incurred or accrued throughout the life of a project, and summates them (bee.ac.in, 2017). Costs are represented as a negative value and savings as a positive value. The sum of all the present values is known as the net present value (NPV). The higher the net present value, the more attractive the proposed project. Table 4 presents the individual savings from each of the intervention, the % energy savings, and the cost of savings. At the time total energy consumption per year for the project is 26,400 kWh and electricity rate Rs.5.45/ kWh. Table 5 summarises the investment, savings, and discounted rate (10% assumed from Niti Ayog project). A simple payback calculation has been included to present the comparative analysis between NPV and simple payback for decision-making. The NPV calculations are presented in Table 6.

Table 4 Summary of energy savings and payback period



*\*Total energy consumption per year- 26,400 kWh and electricity rate- Rs.5.45/ kWh*

Table 5 Summary of energy savings and simple payback period

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Total Cost (Rs.) of Intervention**  **(Rs.)** | **Energy Saving (Aprx.)** | **Implementation/**  **Installation Charges @ 5% of Total Cost**  **(Rs.)** | **ESCO Financing Charges @6%**  **(Rs.)** | **Total Cost of Implementation (Rs.)** | **Saving After Intervention (Rs.)** | **Payback Period (yrs)** |
| Scenario 1 | 274,800 | 59% | 13740.00 | 27,480 | 316,020 | 84,889 | 3.72 |
| Scenario 2 | 287,040 | 61% | 14352.00 | 28,704 | 330,096 | 87,766 | 3.76 |
| Scenario 3 | 358,828 | 63% | 17941.00 | 35,883 | 412,652 | 90,644 | 4.55 |
| Scenario 4 | 319,840 | 64% | 15992.00 | 31,984 | 367,816 | 92,442 | 3.98 |
| Scenario 5 | 357,040 | 67% | 17852.00 | 35,704 | 410,596 | 96,759 | 4.24 |

Table 6 Net Present Value calculations for 10% discount factor

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Discount Factor for 10%** | **Scenario 1** | **Scenario 2** | **Scenario 3** | **Scenario 4** | **Scenario 5** |
| **Capital investment** | 316,020 | 330,096 | 412,652 | 367,816 | 410,596 |
| **Savings per year** | 84,889 | 87,766 | 90,644 | 92,442 | 96,759 |
| **Total** | 400,909 | 417,862 | 503,296 | 460,258 | 507,355 |
| 1 | 0.91 | 364,426 | 379,837 | 457,496 | 418,375 | 461,186 |
| 2 | 0.83 | 301,016 | 313,745 | 377,892 | 345,577 | 380,939 |
| 3 | 0.75 | 226,063 | 235,622 | 283,797 | 259,529 | 286,085 |
| 4 | 0.68 | 154,401 | 160,930 | 193,833 | 177,258 | 195,396 |
| 5 | 0.62 | 95,883 | 99,938 | 120,370 | 110,077 | 121,341 |
| 6 | 0.56 | 54,078 | 56,365 | 67,889 | 62,084 | 68,436 |
| 7 | 0.51 | 27,742 | 28,915 | 34,827 | 31,849 | 35,108 |
| 8 | 0.47 | 12,956 | 13,503 | 16,264 | 14,873 | 16,395 |
| 9 | 0.42 | 5,493 | 5,725 | 6,896 | 6,306 | 6,952 |
| 10 | 0.39 | 2,120 | 2,210 | 2,662 | 2,434 | 2,683 |

From the payback period calculation, the Scenario 2 presents the best option with the lowest payback period (3.76 years) and reasonable energy savings of 61%. However, with the NPV calculations, it is seen that Scenario 5 is the best option with the maximum value from investment after 10-years of intervention. In addition, Scenario 3 is a close second in terms if returns. In fact, Scenario 3 has lesser upfront investment and good return. From the perspective of homeowner, Scenario 2 can be a low-hanging fruit but with higher investment, there is potential for long-term gains. Thus, from a return’s perspective, in ESCO model, either Scenario 3 or Scenario 5 is viable in long-term risk-free decision for interventions.

# Summary and Conclusion

India’s foray into the energy efficiency in the built-environment sector is in its nascent stage. Since the Energy Conservation Act of 2001, and subsequent amendments in 2010, India has shown to make some progress from its national government. The implementation of Energy Conservation Act and the introduction of the Energy Conservation Building Code (ECBC) brought forth a wave of energy efficiency strategies for new construction. But India has a vast stock of existing buildings, especially public buildings, both office buildings and residential complexes. This existing building stock provides the opportunity to achieve energy savings through energy retrofits. But the retrofitting sector is yet to have the propulsion it requires to jumpstart the movement. Many nations have long realised that their existing building stock is a vast stock of untapped energy savings and have introduced initiatives to unravel this mega reserve.

For existing built-environment, the policy framework in India is limited, as majority of programs launched are appliance-based (e.g., replacement of LEDs etc). This is because of the thinking among policy makers that since the existing building stock is electricity-based, energy savings can be easily obtained if the appliance set can be standardised and retrofitted. This is done instead of customised or semi-customised scenarios for each unique building type. The institutionalisation approach that is being undertaken causes a mismatch of savings expectations.

Many of the above-noted limitations are being solved with the introduction of energy saving companies (ESCOs) and renewable ESCO’s (RESCOs). This approach helps to provide customised energy retrofit solutions consisting of focusing on the building typology, undertaking feasibility, and then proposing suitable retrofits. RESCOs are also playing a pivotal role in tapping solar energy as part of the energy retrofit. Successfully completed projects at the central government level are being used as demonstration projects to motivate state-level interventions. Existing residential buildings in India present a large stock of existing buildings and have substantial energy saving potential. Energy savings up to 30-40% can be simply achieved using energy efficient appliances and envelope treatment. Software tools such as EnEff:ReSBuild India can be easily used by residents to calculate approximate energy saving without going into complex technical consultations. In addition, renewable energy installation can result in substantial energy and cost savings also.

However, the biggest issue observed has not been policy development but implementation because of financial obstacles. This is because homeowners are reluctant to uptake renovation projects due to lack of knowledge. One-stop Shop Model, the EU initiative has great potential for the Indian market. EESL, the PSU for Ministry of Power, can be one such nodal OSS.

As part of this overall research, authors came up with following four observations/inferences related to the current state of energy retrofitting of existing buildings in India. These observations/inferences can also provide basis for areas of further research.

1. The major barrier is not only financial, but reluctance of homeowners to undertake energy renovation projects due to lack of knowledge. This can be resolved by ESCO/RESCO model and One-Stop Shop Model.
2. Simple payback period calculations for decision-making of selection of intervention can be misleading, net present value or NPV can be a better alternative as cost-based decision making.
3. Though Indian Government has developed robust initiatives for achieving EE but lacks in effective financial mechanisms and policy instruments for implementation.
4. Whilst this study has not covered the behavioural aspects of homeowners in both energy usage and renovation projects, there is a chasm between understanding behaviour and offering solutions.

India is making good progress towards adopting energy retrofitting of existing buildings. The government is helping to address many financial barriers by introducing helpful initiatives, providing incentives and subsidies, supporting ESCO model, encouraging financial institutions to provide grants, low interest loans, and third-party financing. The authors envision that based on the work presented in this paper, the future of energy efficiency in India for new construction as well as existing buildings in very encouraging.

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