The Coalition for ENERGY SAVINGS

October 2011

More ambition required to meet the 20% savings target

Position on the Commission proposal for an Energy Efficiency Directive, COM(2011) 370

The Coalition for Energy Savings[1] believes that a new Energy Efficiency Directive is a unique opportunity for Europe to bring its 20% energy saving target within reach and put it on course for an efficient and renewable energy vision for 2050.

Stepping up energy efficiency to deliver substantial energy savings is overdue. Current efforts would only achieve half of Europe's energy saving target and undermine the credibility of its climate and energy ambitions. The economic and financial challenges EU governments are facing call for more common responses and make a strong case for improved EU energy efficiency legislation as a clever way to reduce expenditures. Increasing energy efficiency means delivering more and stable local jobs, a healthier environment and increased energy and financial security while spending less on energy bills and imports.

The Coalition urges EU institutions, politicians and legislators to provide leadership and convince the sceptical voices of the need for a common effort to realise energy savings.

The Directive proposal is the right place to do so: It tackles the many barriers that stand in the way of energy efficiency. But as it stands it would only close 2/3 of the current gap towards the 20% energy saving target and miss out on a long-term planning perspective for investors and businesses.

The Coalition calls upon the European Parliament, the Council and the Commission to grasp the opportunity and strengthen the Directive by:

- Setting mandatory national energy saving targets;
- "Switching on" the energy efficiency market with efficiency obligation schemes, including strengthening their quality and clarity as well as deleting the clauses that allow for national opt outs;
- Requiring national energy efficiency financing facilities to mainstream financing sources; and
- Establishing national roadmaps to achieve high and deep building renovation rates.

[1] The Coalition for Energy Savings brings together business, professional and civil society associations. The Coalition's purpose is to make the case for a European energy policy that places a much greater, more meaningful emphasis on energy efficiency and savings. For a full list of members, see www.energycoalition.eu/about/

1. Set mandatory national targets

In the Commission proposal EU and national targets are voluntary[2]. Voluntary targets which Member States have submitted under their National Reform Programmes 2011 so far add up to only half the EU 20% target, according to an assessment by the European Commission. The measures in the Directive proposal are insufficient to reach the target and only close some 2/3 of the current target gap.

Recommendation:

The Directive should establish mandatory national targets for 2020 to secure the overall EU target, to measure collective progress and strengthen accountability of national governments. Setting national targets should take into account differences in starting points and economic development paths. The national shares of the EU target can be calculated based on national consumption projections.

Meeting the 20% target by 2020 should be the bare minimum we aspire to, and only a first step. This should be set within a framework that looks towards 2050 objectives in order to plan what needs to happen in the interim, and to secure maximum contribution from investors and businesses. More is required to get the EU on track to achieving its 2050 climate objectives and to enable an EU economy that respects resource constraints and planetary boundaries as envisioned by the Commission's Resource Efficiency Roadmap[3].

In order to ensure closing the current gap to the EU's 20% target and realising the related socio-economic and environmental benefits, the Directive must make Member States accountable for delivering measurable savings. Summed up, these should be sufficient to meet Europe's target of reducing energy consumption by 20%, which should remain at least below 1474 Mtoe by 2020.

The 'wait and see' approach proposed by the Commission is inappropriate considering the challenge ahead and the unsatisfactory track record of what has been done so far. This approach would be a missed opportunity to develop a common EU spirit of responsibility and to assist and sustain Member States in their energy saving efforts.

[2] Article 3 requires Member States to set voluntary national efficiency targets expressed as an absolute primary energy consumption level in 2020. In 2014 the Commission would, according to Article 19(7) assess the voluntary national targets and propose mandatory targets if appropriate.

[3] Commission Communication: Roadmap to a Resource Efficient Europe, from 22/09/2011

2. "Switching on" the energy efficiency market

Article 6[4] is an important step towards a long-term energy saving objective with a guaranteed financing for energy efficiency improvements for consumers and a secured market for the energy efficiency business. If well-designed and implemented in a timely way, energy efficiency obligation schemes have the potential to close half of Europe's energy saving gap and to step up energy demand management.

Recommendations:

a) Delete the opt-out clause (Article 6.9) but allow that a part of the efficiency obligations can be delivered by contributing to a dedicated national financing facility instead of directly carrying out efficiency improvement measures (see Point 3).

b) The obligation schemes should cover distributors or retailers responsible for at least 2/3 of energy sales without specifying which sectors are to be excluded or included;

c) The obligation should be determined as 1.5% cumulative annual energy savings (i.e. each year an additional 1.5% savings should be delivered via new efficiency improvement measures while ensuring that the savings volumes from previous years are sustained or renewed). Before 2020 this should be increased beyond 1.5%, as countries progress along the learning curve;

d) Electricity should be weighed by a common and constant factor of 2.5 until 2020 to ensure an coherent and comparable contribution of end use savings to the overall EU and national energy saving targets;

e) Energy savings should be the result of new and additional end-use energy efficiency improvement measures and double counting should be avoided. This requires establishing harmonised measurement and verification as well as setting clear boundaries between the different measures proposed by the Directive; and

f) Recovery of the costs via energy prices should be made transparent to consumers on their energy bills and windfall profits must be prevented.

a) The Commission proposal introduces efficiency obligation schemes, which could provide guaranteed and stable financing to achieve a minimum level of energy savings, establish an energy demand management market and promote a new business model. However, this is undermined if whole countries can opt-out, as proposed by the Commission. The current energy supplier model of selling as much energy as possible will only shift to an energy efficiency business model if suppliers are required to plan and invest in measures that achieve a minimum level of energy savings. This does not necessarily mean that they have to offer energy efficiency improvement measures to energy customers, but at least contribute financially to such activities, ensuring a stable funding stream that is independent from state budgets.

b) Transport accounts for a third of Europe's energy consumption and saving potentials are huge. The Directive should therefore not exclude transport fuel suppliers. The decision should be left to Member States, provided that their scheme has a minimum coverage, for example 2/3 of total energy sales. This will provide greater predictability about the savings that can be expected from the schemes, and flexibility for Member States.

c) For new schemes, the proposed cumulative 1.5% savings per year will be a reasonable level of ambition as long as the eligible measures are designed to deliver additional and

[4] Article 6 requires Member States to set up energy efficiency obligations schemes under which energy distributors or retailers have to achieve a minimum of 1.5% energy end use savings annually. Such schemes could deliver more than half of the Directive's impact on energy saving.

long–lasting end-use savings. After schemes have been in operation for some time, greater savings will be both possible and necessary.

d) In the EU, 2.5 units of primary energy are required on average to produce one unit of electricity. This conversion factor is the EU standard and applying it enables a consistent estimation of the primary energy savings impact of a given reduction in electricity use. Reducing that conversion factor or not using it at all would under-value the savings impact of reductions in electricity use and hinder Europe's primary energy saving progress. The conversion factor should be reviewed by 2020 in consideration of the growing share of renewable energy sources, like wind, hydro and solar as well as improved efficiency in thermal power plants.

e) Energy savings should be delivered by efficiency improvement measures which are not already in place or are part of other measures in this Directive in order to avoid regulatory overlaps, incoherent policy and reduced overall delivery. Measurement and verification of energy savings resulting from efficiency improvement measures should be harmonised building on the guidance developed by the European Commission for the implementation of the Energy Services Directive and which is applied by many Member States for their Energy Efficiency Action Plans.

f) Article 6, as a market based instrument, should help ensure that energy savings are delivered cost-effectively. This requires that costs are passed on to consumers, who should be able to benefit from reduced energy bills, in a transparent way. Windfall profits by companies not subject to obligations (i.e. with unwarranted price increases) have to be prevented.

3. Require financing facilities

The Commission proposal omits the establishment of a minimum financing infrastructure to overcome one of the biggest barriers to energy savings: upfront investment costs.

Recommendation:

a) Member States should be required to set up an energy savings financing facility that aggregates financing streams from various sources. This could include contributions from energy suppliers as an alternative way of delivering their efficiency obligations, fines from non-fulfilment of the obligation and Emission Trading System (ETS) auctioning revenues; and

b) So–called "Power capacity" markets have to be opened up to energy savings resulting from efficiency improvement programmes.

a) National financing facilities should make maximum use of public funds to leverage private finance, and provide financial tools, which reduce both the perceived and actual risks of energy savings projects. These facilities should be linked with agencies or programmes which help to direct financing to projects and provide technical assistance. They should therefore provide a one-stop shop with independent information for energy consumers and service providers. Using these facilities as the repository for a share of the financing stream created by Article 6 will help to ensure that third party energy service companies and new market entrants also benefit from the newly guaranteed market. Energy savings delivered by such national financing facilities should meet the same criteria as established for energy efficiency obligation schemes.

b) In liberalised European electricity markets, only traditional forms of energy supply are currently offered in so–called power capacity markets. However, energy efficiency programmes, should be allowed to compete on a level playing field alongside traditional supply side measures in the capacity market to meet near and medium term demand (Forward Capacity Markets).

4. Promote leadership of public sector and enterprises

The Commission has proposed setting **public sector** requirements. However, these have too many loopholes and provide too few incentives.[5]

Recommendation:

The Directive should strengthen public procurement criteria and building renovation requirements, and set appropriate financing schemes and regulation. Public procurement criteria have to give priority to energy efficiency and public bodies should be encouraged to implement energy performance contracting.

The public sector sometimes lacks the resources to manage complex procurement rules. Very tight and restrictive interpretation of state aid and procurement rules, to the disadvantage of energy efficiency improvement measures and programmes, has been shown to slow down progress. The Directive should set simple and ambitious rules without backdoors to avoid increasing complexity, which would be the case if economic and technical assessments are required (Annex III of Energy Efficiency Directive proposal). Instead, energy efficiency should be priority criteria for public procurement.

Energy performance contracting is an important tool a) to achieve significantly better energy efficiency gains when buildings are refurbished, and b) to help and finance the investments needed thanks to guaranteed energy savings.

The Commission proposes mandatory **audits** for large enterprises, but minimum criteria are missing and **energy management systems** remain voluntary.

Recommendation:

Audits should fulfil minimum criteria[6] and follow European harmonised approaches, which cover industrial processes and buildings, and be followed up by an energy management system in all cases where a significant saving potential is identified by the audits. SMEs should be able to cover audit costs and receive incentives to carry out recommendations.

Energy audits are already widespread in the industry to optimise the production process. In order to bring an added value and tackle the peripheral energy uses, the proposal should clearly address buildings and technical building systems such as heating systems. It should also set audit criteria to be enforceable and to avoid that international companies have to respond to different national requirements. They should also include triggers for following up with concrete measures. This can be achieved by putting in place energy management systems, which require enterprises to embrace energy efficiency improvements as a core part of management and to identify responsible staff, or by improved incentives aimed at financing the audits in case audits are followed by concrete measures.

SMEs should receive support, including the possibility to fully recover the costs of energy audits via financial or fiscal instruments, in order to sharply increase the number of audited SMEs and the number of successful follow-up actions.

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[5] Article 4 requires Member States to renovate annually 3% of publicly owned buildings, excluding ones with less than 250 m2, to a minimum standard to be determined nationally in accordance with the Directive on the Energy Performance of Buildings. Article 5 requires that public bodies purchase only high performing products and services.

[6] Criteria should include: life-cycle cost analysis (LCCA) whenever possible in order to take account inter alia of long-term savings, residual values and discount rates; auditors (both in-house and external) must be officially certified and/or accredited; recommendations must always include proposals for following up the implementation of the recommendations and of the application within a new or existing energy management scheme or programme; build on applicable benchmarking and best practice schemes, including Best Available Technologies (BAT).

5. Establish national building renovation roadmaps

Improvement of the building stock is rightly targeted by the Commission proposal, but it overlooks the issue of financing, lacks a long-term perspective and remains too limited in scope.

Recommendations:

a) Require Member States to establish comprehensive inventories and national renovation roadmaps covering all buildings until 2050, and to outline strategies for deep renovations;

b) Use the domestic investment streams, like the ones created by the efficiency obligation schemes under Article 6[7], as well as EU funding, to create a market for deep renovations of buildings and to support constrained public authorities; and

c) In addition to the public buildings target, put in place drivers for the renovation of commercial and tertiary buildings. This should target the energy saving potential of the building's envelope and its equipment, with a clear focus on delivering energy savings, e.g. through audits and management requirements.

a) The Directive must require the establishment of national financing facilities (see Point 3) to help overcome the perceived barriers for deep renovations: high upfront capital requirements and long payback periods.

b) A fundamental improvement of the building stock is necessary in order to achieve both short and long-term energy savings, and measures have to cover the building shell and the replacement of inefficient energy-using equipment. Therefore the Directive must go beyond existing legislation by ensuring that Member States develop a long-term 2050 perspective. This should cover all buildings, including first and foremost building envelopes and their heating and cooling systems, and their equipment. Member States should also invest in deep renovation approaches[8]. Roadmaps need to recognise the important role of energy efficiency services in achieving long-term savings. These services cover i) whole building, including the building envelope, ii) building equipment, iii) operation and maintenance of this equipment and iv) occupant's behaviour.

c) Commercial buildings have a quick turnover and renovation potential. Therefore enterprises should tackle the building performance via the energy audits and management requirements.

[7] Efficiency obligation schemes mean that energy suppliers will have to provide financing to energy customers to undertake energy efficiency improvement measures. This financing stream could be used to target specific measures or sectors to achieve specific objectives.

[8] Deep renovation of a building usually achieves at least 75% energy demand reduction.

6. Link supply side and end use energy efficiency improvements

The Commission proposal includes the full energy supply chain: energy supply and transformation as well as savings in end use. The proposal recognises the importance of improving conversion efficiency and quantifying both heat demand in end use, and heat losses in transformation. However the proposal fails to link these demands and losses to targets for energy efficiency and energy savings in Article 3.

The Commission proposal introduces the requirement for Member States to establish national heating and cooling inventories and plans which shall be taken into account in local and regional development plans. This is a central element of the Directive and it must not be weakened.

Recommendation

Require that member states include explicit objectives for energy efficiency and savings in the energy transformation sector and link these to the energy savings targets in Article 3.

7. Ensure climate and energy policy coherence

The proposed monitoring of the impact of the Directive on the EU Emissions Trading System (ETS) is necessary.

Recommendation:

a) Require the Commission to carry out assessments before and after the implementation of this Directive, on possible impacts on climate legislation; and

b) Include the Effort Sharing Decision in the monitoring requirements.

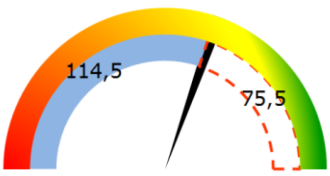
a) The monitoring of energy legislation should be informed by a rapid assessment of the impact of the adopted Directive on climate legislation.

b) The coherence of EU climate and energy policy should be assured by a clear mandate for the Commission to monitor the impact of the Directive also on the Effort Sharing Decision.

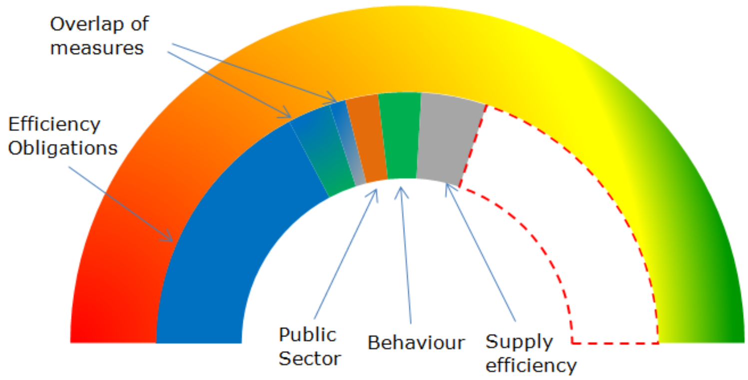
New and robust legislation that increases energy savings will reduce greenhouse gas emissions faster. In order to enable maximum reductions, avoid severe fluctuations in CO_2 prices and ensure stable market incentives for investors, the Commission needs to monitor the impact of this Directive on the EU’s dedicated greenhouse gas emission reduction. Any required adjustments of these instruments will need to be informed by in-depth impact assessments.

8. Annex: Gapometer

According to Europe's latest energy projections, with current policies and laws Europe is estimated to achieve less than half of its energy saving target of 368 Mtoe; the savings gap for 2020 is around 190 Mtoe. The energy savings expected to result from different efficiency measures in their different options are presented in the Impact Assessment of the European Commission accompanying its legislative proposal. Based on these estimations, the Gapometer estimates how far the specific efficiency measures together in the draft Energy Efficiency Directive could close the energy savings gap, making assumptions on the effectiveness of implementation. It also shows the aggregated contribution to the savings of different types of measures and their possible overlaps.

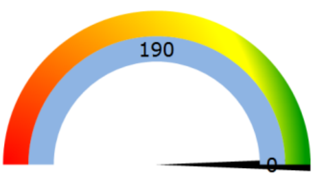


Commission proposal
Remaining Gap of 75,5 Mtoe

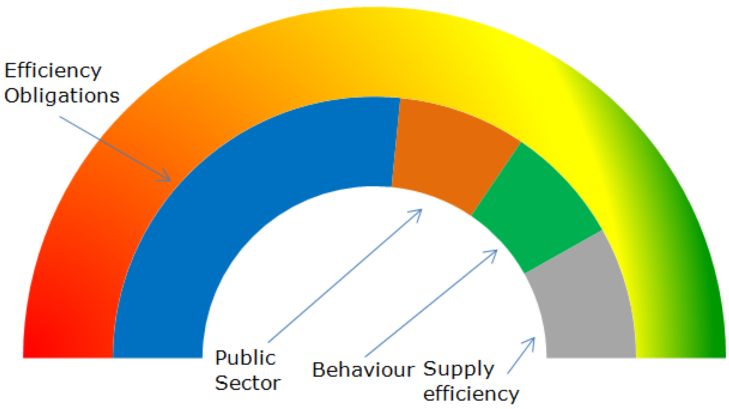


Contribution of the different measures

The Commission proposal from 22 June has the potential to deliver around 114.5 Mtoe of savings, a majority of which resulting from the implementation of energy efficiency obligations (Art.6). The remaining gap amounts to 75.5 Mtoe.



Coalition recommendations
No remaining gap



Contribution of the different measures

The recommendations presented in this position paper have the potential to deliver 190 Mtoe of savings and to close the target gap to secure EU target achievement. This can be done by setting mandatory national targets and by strengthening the efficiency obligations, public sector and enterprise leadership (public sector and behaviour), as well as setting cross-cutting renovation requirements and stimulating efficiency of supply.

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