Energy efficiency

Making the Energy Union work for citizens

Position paper on the

Revision of the Energy Efficiency Directive, the Governance of the Energy Union Regulation and the new Electricity Market Design

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The Coalition for Energy Savings (AISBL) strives to make energy efficiency and savings the first consideration of energy policies and the driving force towards a secure, sustainable and competitive European Union. Its membership unites businesses, professionals, local authorities, trade unions, consumer and civil society organisations in pursuit of this goal. Coalition members represent:

- more than 500 associations and 200 companies
- 15 million supporters and more than 2 million employees
- 2,500 cities and towns in 30 countries in Europe

Members of the Coalition are:

Architects' Council of Europe (ACE), BEUC (The European Consumer Organisation), CEE Bankwatch Network, ClientEarth, Climate Action Network Europe (CAN-Europe), Climate Alliance, COGEN Europe, E3G, Energy Cities, Euroheat & Power (EHP), European Alliance of Companies for Energy Efficiency in Buildings (EuroACE), European Alliance to Save Energy (EU-ASE), European Association of Polyurethane Insulation Manufacturers (PU Europe), European Climate Foundation, European Committee of Domestic Equipment Manufacturers (CECED), European Copper Institute, European Council for an Energy Efficient Economy (eceee), European Environmental Bureau (EEB), European Federation of Intelligent Energy Efficiency Services (EFIEES), European Federation of Building and Woodworkers (EFBWW), European Insulation Manufacturers Association (Eurima), European Federation of Public, Cooperative & Social Housing (Housing Europe), European Partnership for Energy and the Environment (EPEE), Friends of the Earth Europe, Glass for Europe, Lighting Europe, Transport & Environment (T&E) and WWF, as well as advisory members Buildings Performance Institute Europe (BPIE) and Regulatory Assistance Project (RAP).

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Clean Energy for All Europeans proposals: putting energy efficiency first?

With its 'Clean Energy for All Europeans' package, the European Commission proposes to review a wide range of energy legislation, with the aim to put energy efficiency first, achieve global leadership in renewable energies and provide a fair deal for consumers.

- The package notably includes proposals to review the energy efficiency framework legislation, the Energy Efficiency Directive (EED), and the Energy Performance of Buildings Directive (EPBD), setting a 2030 target, providing a 2050 outlook to burgeoning energy efficiency markets and energy renovations of buildings. The proposals however fall short of considering the full cost-effective energy savings potential, in terms of securing the best deal for all energy consumers, households and businesses.

- The package also includes proposals for an Energy Union Governance Regulation and for setting the new rules for the electricity market. The European Commission has made some progress in incorporating energy efficiency in these proposals, but not sufficiently to redress the historic bias towards prioritising increasing supply over energy saving.

For every 1% extra energy savings by 2030:

Figure 1 – Analysis of the impacts of increasing the 2030 energy efficiency target[1]

In today's difficult economic and social context, it is more relevant than ever for the EU and its Member States to act convincingly on both immediate concerns (employment, economic development and a safe and secure energy policy) and long-term challenges (climate protection), through policies that can offer opportunities and solutions on multiple levels.

2017 will be a key year for legislators to address these issues, as the above-mentioned proposals will be scrutinised with great attention, and subject to modifications.

[1] Stefan Scheuer Consulting, Benefits of increasing the EU's 2030 Energy Efficiency Target, 2016

Ensuring energy savings, accelerating investments

To act convincingly on energy efficiency and bring tangible benefits to citizens, two types of policies should be reinforced:

Policies which ensure the delivery of energy savings

There is no more affordable energy than the energy not consumed, but energy savings do not happen on their own or as a result of pricing policies such as the EU-ETS.

EU legislation has been playing a key role to promote standards, inform consumers, and accelerate the upgrade of leaky buildings, wasteful equipment and technologies, production facilities and mobility systems.

The good news is that the EU and its Member States are not starting from scratch. With the adoption of the Energy Efficiency Directive (EED) in 2012, the EU has equipped itself with a comprehensive energy efficiency framework which has already triggered Member States to design extensive energy efficiency strategies and innovative schemes.

Opportunities for legislators to improve these policies can notably be found in the:

- ➔ *Proposed revision of the Energy Efficiency Directive (EED)*
- ➔ *Proposed revision of the Energy Performance of Buildings Directive (EPBD)*
- ➔ *New proposal for a Regulation on the Governance of the Energy Union*

Policies which accelerate investments by breaking down barriers

The opportunities to invest in energy efficiency are usually neglected in our centralised energy systems and markets.

With energy efficiency being a key part of the energy transition and the emergence of new actors, such as empowered energy consumers or those investing in small-scale renewable self-generation, today's energy systems are transforming from centralised systems to decentralised ones.

Policies which regulate this transformation should ensure that energy efficiency investments are prioritised over investments in additional inefficient generation, transmission and distribution capacity, wherever they make more economic sense and bring more benefits to citizens.

Opportunities for legislators to improve these policies can notably be found in the:

- ➔ *Market Design legislation updates*
- ➔ *New proposal for a Regulation on the Governance of the Energy Union*

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Recommendations

To act convincingly on energy efficiency and bring tangible benefits to citizens, legislators should consider the following elements:

Outlook	#1 - Increase the 2030 energy efficiency target to 40%, the level of the EU's cost-effective potential
Certainty	#2 - Hold Member States accountable for delivering the target with national binding targets and credible corrective action
Growth	#3 - Improve the 1.5% annual savings requirement by giving it a meaningful 2050 outlook #4 - Improve the 1.5% annual savings requirement by including the energy used in the transport sector in the baseline to calculate the target #5 - Improve the 1.5% annual savings requirement by focusing on real end-use savings aligned with long-term objectives and strategies
Consistency	#6 - Ensure that the energy efficiency first principle is taken into account when developing national energy and climate projections, plans and strategies #7 - Ensure that the energy efficiency first principle is taken into account when transforming EU's electricity market

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#1 - Increase the 2030 energy efficiency target to 40%, the level of the EU's cost-effective potential

Our demand: a 40% energy efficiency target for 2030 – According to research findings presented in the impact assessment for the EED revision proposal[2], the EU could cost-effectively save 40% of its energy consumption by 2030. A large profitable energy savings reservoir is untapped, and many policies put in place by Member States are in their first years of delivery. The Coalition for Energy Savings calls for a binding 40% energy efficiency target for 2030.

Relevant provisions

- *EED – Amended Art 1 & 3.4*

Justification – If it makes economic sense for an individual, a company, or a public authority to invest in energy efficiency, the achievement of these savings should be pursued. A target set at the appropriate level will guide the development of a framework which will accelerate the roll out of energy efficiency investments and their associated benefits. 40% is also well within reach, as shown by Figure 2.

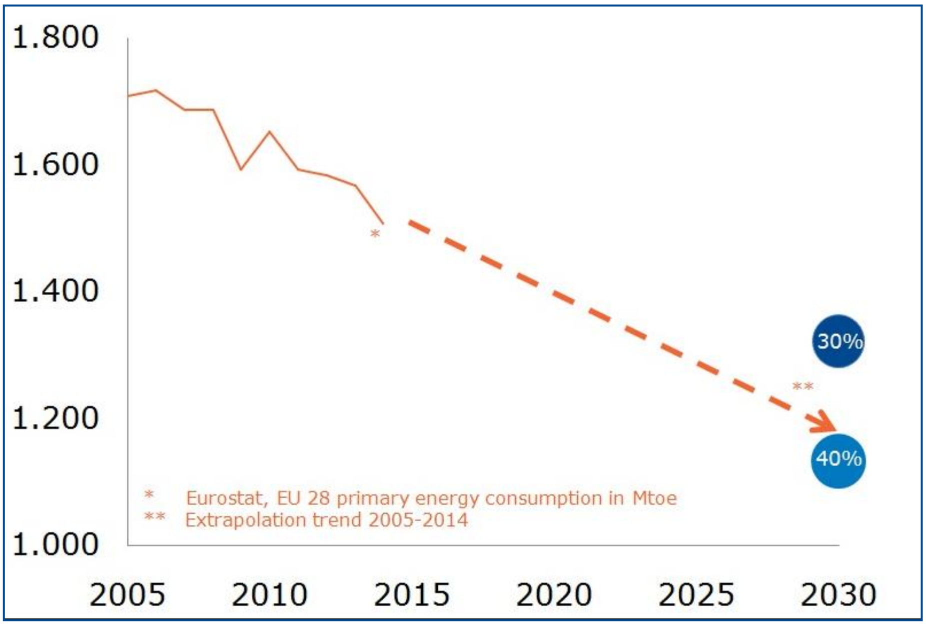

Figure 2 – 40% by 2030, a target within reach (Source: The Coalition for Energy Savings based on Eurostat)

[2] Fraunhofer ISI, PWC and TU Wien, 2014. Data used in European Commission, 2016, Impact assessment accompanying the Proposal for a Directive of the European Parliament and of the Council amending Directive 2012/27/EU on Energy Efficiency, p.17.

#2 - Hold Member States accountable for delivering the target with national binding targets and credible corrective action

Our demand: national binding targets to avoid gaps in pledges – The Coalition welcomes the proposal from the Commission to set a 2030 EU binding target for energy efficiency. However, the pledge and review system proposed in the Governance Regulation will not encourage ambitious and sufficient pledging from Member States. The Coalition proposes setting up national binding targets, accompanied by trajectories, to break down the 2030 EU-wide target set out in Article 3 of the EED. If legislators decide to maintain the pledge and review system, a clear mechanism should be established to ensure that any gap to the EU target is closed at the planning phase, taking into account the ambition of Member States' initial pledges. A baseline should also be set for the Commission to assess national pledges.

Relevant provisions

- ➔ *EED – Amended Art 1 & 3.4*
- ➔ *Governance – Art 4 & 6*

Justification – An approach to setting and reviewing indicative national targets relying only on Member States' goodwill does not ensure that the targets match the necessary ambition[3]. Binding targets provide investment certainty, which leads to investor confidence. Furthermore, indicative targets are ignored when planning for the energy system, therefore running the risk of driving investments into costly and redundant infrastructure[4].

Our demand: credible corrective action to address gaps in delivery – The proposed Governance Regulation suggests that the Commission *"shall take measures"* in case progress towards achieving the EU energy efficiency target is insufficient. This does not trigger certainty that targets will be achieved. More accountability could be put on Member States to deliver on their pledges, including for example the option to participate in a fund.

Relevant provisions

- ➔ *Governance – Art 12, 19, 25, 27*

Justification – High pledges are relevant only if they are accompanied by enforcement.

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[3] In 2013, Member States indicated their 2020 targets which did not add up to the EU target (with a gap of more than 4% to the primary energy target).

[4] As it was the case with the model used by the European Commission, PRIMES, to draft the Impact Assessments of the legislation for the 2020 and the 2030 climate and energy policy framework. As the EU 2020 target for energy efficiency is an indicative target, the model assumes that it would not be met in 2020.

#3 - Improve the 1.5% annual savings requirement by giving it a meaningful 2050 outlook

Our demand: the extension of Art 7 beyond 2020 – The Coalition for Energy Savings calls on legislators to support the proposal from the European Commission to extend the Energy Efficiency Directive Article 7 beyond 2020.

Relevant provisions

- ➔ *EED – Amended Art 7*

Justification – This provision provides more certainty to market actors. It requires Member States to put in place national energy efficiency measures to deliver 1.5% new and additional end-use energy savings every year from 2021 to 2030, and in subsequent periods, unless the Commission, in its reviews, concludes that this is no longer necessary in order to meet the EU's energy targets.

Our demand: regular growth of the market with cumulative savings – In order to trigger a regular uptake of energy efficiency measures and an outlook for the energy efficiency markets, it is important that the savings achieved during one period (e.g. 2014-2020) are maintained over the next period(s) (e.g. 2021-2030). The Commission's proposal does not require the savings to be cumulative from one period to the next. This means that if savings from an intervention in the first period retire in the following periods (because the equipment / system loses performance or reaches end of life), those missing savings do not have to be replaced (by ensuring strengthened market standards, or repair and maintenance requirements). Instead the replacement and repair can be counted, misleadingly, as new savings.

Relevant provisions

- ➔ *EED – Amended Art 7*

Justification – It is estimated that by 2030 about 18% and by 2040 about 70% of the savings from measures implemented before 2020 will be lost. Under the Commission's proposal maintaining or replacing those lost savings would count as new savings and reduce the effective ambition of the 2021-2030 period by 13%, and of the 2031-2040 period by 60%. In the last period (2041-2050), it would be sufficient to replace retired savings to achieve the savings requirement, which means that effectively no new and additional savings are delivered. Furthermore, this could lead Member States to focus on short-term measures at the end of each period, and would not encourage putting in place measures whose lifetime is longer than 10 years, such as buildings renovations.

#4 - Improve the 1.5% annual savings requirement by including the energy used in the transport sector in the baseline to calculate the 1.5% target objective

Our demand: Energy used in transport should not be disregarded – Member States are allowed to use different options to reduce their annual savings under Article 7 of the EED. One of these options, which has been used by 27 Member States, is the possibility to exclude transport energy consumption from their baseline when calculating the energy savings needed to fulfil their 1.5% objective. The Coalition calls for transport energy consumption to be included in the baseline calculation to provide a more accurate starting point and ensure greater savings.

Justification – Article 7 was conceived so that Member States secure new savings equivalent to 1.5% of energy sales each year. This is currently not achieved because Member States are allowed to use different options to reduce the savings to only 0.75%[5] per year. Only Sweden stated that it does not use the option to exclude transport energy consumption from its baseline calculation[6]. In a report published by the European Commission[7], the rationale for allowing the continued use of this flexibility is questioned. An important energy savings potential remains in the transport sector and this should be taken into account when setting the 1.5% objective under Article 7.

Relevant provisions

- ➔ *EED – Amended Art 7*

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[5] Rosenow, J., Leguijt, C., Pato, Z., Fawcett, T., Eyre, N. (2016) An ex-ante evaluation of the EU Energy Efficiency Directive - Article 7. Economics of Energy & Environmental Policy 5(2), p. 45-63

[6] Ricardo Energy & Environment (2016) Study evaluating progress in the implementation of Article 7 of the Energy Efficiency Directive

[7] *Ibid*

#5 - Improve the 1.5% annual savings requirement by focusing on real end-use savings aligned with long-term objectives and strategies

Relevant provisions

- *EED – Amended Art 7*

Our demand: Flexibility should not reduce results – The EED provides several options for Member States to deliver less than the 1.5% savings (up to 25% of the calculated target). Back in 2012, these exemptions were seen as a way to take into account national differences. In practice, this 25% flexibility was used by Member States to lower the delivery of energy efficiency improvements[8]. The Commission however proposes to continue this approach for the next periods. The flexibility can only be maintained if the following requirements are both fulfilled:

1) Exemptions constituting 'statistical tricks' are removed. This includes the possibility for Member States to reduce the savings to be delivered by an amount equivalent to a part or all of the energy sold to ETS industries and to count savings resulting from actions already implemented before the EED adoption (early actions).

2) Measures reported under the flexibility option fulfil the same requirements on planning, reporting, monitoring and verification as end-use savings measures under Article 7.

This would ensure savings through real energy efficiency improvements in the energy transformation, distribution and transmission.

Justification – By the beginning of the next obligation period, in 2021, Member States will have acquired at least seven years of experience with their Article 7 measures, and will still have the possibility to choose whether they want to put in place market-based instruments such as Energy Efficiency Obligations schemes or alternative measures[9]. Member States should focus on stepping up activities which contribute to the achievement of the EU's energy efficiency goal rather than reducing their target. By removing the exemptions that constitute statistical tricks as outlined above, provisions allowing flexibility in the next period can

[8] Ricardo Energy & Environment, 2016, Study evaluating progress in the implementation of Article 7 of the Energy Efficiency Directive, p. 54

[9] Such as funds, energy taxes, financing schemes, fiscal incentives, and training or education programmes

only give credit to Member States' meaningful and additional measures, in particular savings achieved in the energy transformation, distribution and transmission sectors, as mandated by Articles 14 and 15, and where evidence from the national level shows that there is significant potential for primary energy savings. Robust methodologies should be set up to facilitate the implementation.

Our demand: Promoting actions that primarily aim at improving end-use energy efficiency and savings – The Coalition for Energy Savings welcomes the improvements made in the EED Annex V and in the notification template for Article 7, which are a good basis to increase transparency and accountability. While only measures with the primary aim of improving end-use energy efficiency and savings are eligible under Article 7, as specified by the guidance note from the European Commission[10] and in the definitions provided in paragraphs (18) and (19) of Article 2 of the EED, this requirement is not fully respected by Member States in the current implementation. The Coalition believes that this should be clarified in the text of the Directive itself to avoid any further confusion.

Relevant provisions

- *EED – Amended Art 7*
- *EED – Amended Annex V*
- *Governance – Annex II and VII, Art 19*

Justification – Taxes, charges or tariffs that mainly serve other purposes, such as creating general state revenues or maintaining infrastructure, have been reported by Member States in their Article 7 notifications, missing the aim of the Article.

Our demand: Synergies and long-term outlook for Article 7 policies – In order to ensure synergies and consistency across the package, the measures reported under Article 7 should also consider longer-term energy and climate goals. For example, the implementation of measures under Article 7 and the Member States' long term building renovation strategies aiming at achieving a decarbonised building stock by 2050 should be mutually reinforcing. Member States should make sure they are in full compliance with the Energy Performance of Buildings Directive to ensure the cost-effective energy upgrade of their building stock, and the deployment of related benefits.

Relevant provisions

- *EED – Amended Art 7*
- *Governance regulation – Annex I, II & VII*

[10] European Commission guidance (SWD(2013) 451) states that: "*This wording excludes policy measures that are primarily intended to support policy objectives other than energy efficiency or energy services […]. Examples […] would be construction of new roads to ease traffic congestion, various energy grid networks charges, or feed-in tariffs.*"

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Justification – The integration and synchronisation of all energy and climate planning and reporting under the proposed Governance Regulation provides an opportunity for Member States to take a comprehensive look at the various measures they take to underpin their energy and climate goals.

#6 - Ensure that the energy efficiency first principle is taken into account when developing national energy and climate projections, plans and strategies

Our demand: National Energy & Climate Plans putting energy efficiency first – A definition of energy efficiency first, aligned with the one included by the European Commission in the EED proposal[11], should be included in the Governance Regulation and other relevant pieces of legislation. Energy efficiency should also be reinforced in all the chapters of the National Energy and Climate Plans (NECPs). For example, the governance proposal states that *"Projections concerning security of supply, infrastructure and market integration shall be linked to robust energy efficiency scenarios"*. The Coalition for Energy Savings welcomes this provision and calls on these scenarios to take into account the achievement of the EU and national energy efficiency targets, including in relation with Article 7 of the EED. Furthermore, Member States should be required to disclose their assumptions about energy projections and about the impact of policy measures.

Relevant provisions

- ➔ Governance – Art 3-4, 8 & Annex I

Justification – The development of NECPs opens up opportunities for Member States to consider the potential of energy efficiency before making decisions and drafting legislation impacting the energy system, and to ensure that energy efficiency is treated fairly in modelling. The drafting of NECPs will also allow Member States to compare measures: they should focus on those which are cost effective and deliver long-term savings to consumers, building on their experience.

Our demand: Stakeholders and Commission taking ownership of energy efficiency first – Stakeholders' participation in co-designing the NECPs opens up opportunities for them to promote and upscale their energy efficiency actions, which can contribute to setting more ambitious energy efficiency targets at national level. The requirements on public participation should be reinforced to build citizens' ownership and facilitate the development of the plans. In addition, the European Commission should also take ownership of the energy efficiency

Relevant provisions

- ➔ Governance – Art 10
- ➔ Governance – Art 29

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[11] Recital 2: The energy efficiency first principle "*should be taken into account when setting new rules for the energy supply and other policy areas. EE needs to be considered whenever energy system relevant planning or financing decisions are taken. EE improvements need to be realised whenever it is more cost-effective than equivalent supply side solutions".*

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first principle by reviewing and reinforcing its application across EU legislation and by regularly reporting on its implementation, as part of the State of the Energy Union.

Justification – The implementation of the energy efficiency first principle must be ensured and enforced at all levels of governance.

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#7 - Ensure that the energy efficiency first principle is taken into account when transforming EU's electricity market

Our demand: Market rules should encourage energy efficiency – The Coalition for Energy Savings welcomes the multiple references to energy efficiency as a way to empower consumers in the proposed electricity legislation. More is needed for the electricity market to fully embrace and operationalise the energy efficiency first principle.

Justification – Supply and demand-side resources should be properly considered in energy markets.

Relevant provisions

- Electricity Regulation, Article 3.1(e)(f)

Our demand: Putting energy efficiency first in the regulation of networks – Distribution System Operators (DSOs) and Transmission System Operators (TSOs) are currently not required to pursue the most cost-effective options of supply-side and demand resources. This should be addressed.

Justification – The consideration of the energy efficiency first principle must be addressed in network regulation to send the right signal and encourage investments into energy efficiency.

Relevant provisions

- Electricity Regulation, Article 16.8
- Electricity Directive, Art 8, Chapter III, IV, V, Art 58

Our demand: Putting energy efficiency first in resource adequacy and system planning. The Coalition for Energy Savings welcomes the reference to energy efficiency and demand-side resources in how resource adequacy is to be calculated. It is also important that network tariffs actively encourage energy efficiency and energy savings and foster the flexibility of demand and supply.

Justification – Energy efficiency policies and demand response affect demand projections and are a resource to support energy security.

Relevant provisions

- Electricity regulation, Art 25.2, 16.2, Article 18, 19, 23.