The Coalition for ENERGY SAVINGS

REVISED EED: NEW RULES, MORE SAVINGS, HIGHER BENEFITS.

Overview of the 2023 Energy Efficiency Directive

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Overview of the 2023 Energy Efficiency Directive

The 'Fit for 55 package' and the REPowerEU plan proposed to upgrade the current Energy Efficiency Directive (EED) to align it with the higher 2030 climate objective and speed up the phase-out of fossil fuel imports from Russia. After almost two years of negotiations, the European Parliament, the Council of the EU and the European Commission agreed on a joint text that strengthens the existing energy efficiency framework, even if not to the level needed to grasp the energy savings potential and deliver its full benefits.

The publication of the recast EED in the EU Official Journal is expected in the summer of 2023. While Member States must transpose the new text into national law within two years of publication, several elements will have to be already included in the draft update of the National Energy and Climate Plans (NECPs) due by 30th June 2023. This briefing presents an overview of the key EED provisions agreed.[1]

2030 EU energy efficiency target (Article 4 and Annex I)

Level of the target

Co-legislators agreed on a **2030 EU energy efficiency target of at least 11.7%, which is a reduction** compared to the PRIMES 2020 reference scenario for both final energy consumption (FEC) and primary energy consumption (PEC).

While this level of ambition is below the cost-effective energy savings potential (19%) and below what the Commission had deemed necessary in the REPowerEU plan to phase out fossil fuel imports from Russia (13%), **it should still drive a substantial increase of effort to save energy in the coming years.** Indeed, the new 2030 energy efficiency target is 9 percentage points higher than the current one (the 32.5% target, which was based on PRIMES 2007, corresponds to a 2% target in final energy with the PRIMES 2020 baseline).

In absolute terms, the 11.7% target is equivalent to **763** million tonnes of oil equivalent (Mtoes) for FEC and **992.5** Mtoes for PEC. When this target is compared to the EU energy consumption in 2021, it represents respectively a 21.2% and 24.3% reduction in 2030.

Governance of the target

The agreed governance of the 2030 EU energy efficiency target is an improvement compared to the current EED, but it still does not provide the necessary certainty that the target will be met. For the first time in European efficiency policy, **the EU target for final energy is made binding**; however, the EU target for primary energy remains indicative, reducing the incentive to improve the efficiency of the whole energy system.

1. The full text, pending legal review and final adoption, can be found here.

Regarding national contributions, those are kept indicative, but a **more reliable way to set them** is introduced compared to the current EED. A new formula with four factors (detailed in the EED Annex I) provides a benchmark for Member States to define their contributions. However, Member States may still take into account other national circumstances and relevant national factors and deviate from the result of the formula by a maximum of 2.5%. If there is a gap between the sum of national contributions and the EU target, **the European Commission is mandated to share it among Member States** that pledged lower than the formula's result.

Finally, the new EED also foresees a **mechanism to increase action in case national progress is not adequate.** If the Commission finds that a Member State is above its indicative trajectory when assessing progress on energy efficiency in line with the Governance Regulation (progress reports are due in 2025, 2027 and 2029), it will be required to implement additional measures and quantify them in terms of energy savings, within one year from the assessment.

Table 1: Comparison between current and new EED provisions on the 2030 energy efficiency target (Article 4 and Annex I)

	Current EED	EED Recast
Level of the 2030 target	32.5% FEC and PEC (PRIMES 2007). 2% in FEC and 0.3% in PEC (PRIMES 2020).	11.7 % for FEC and PEC (PRIMES 2020). 37.9% FEC and 40.6% PEC (PRIMES 2007).
Bindingness of EU target and national contribution	Indicative EU target for FEC and PEC. Indicative national contributions for FEC and PEC.	Binding EU target for FEC, indicative EU target for PEC. Indicative national contributions for FEC and PEC.
Setting of national contributions	Indicative pledges with no benchmark.	Formula providing a benchmark in Annex I, but possibility to deviate from its result by 2.5%.
Gap ambition mechanism	No mechanism to ensure that the sum of national contributions adds up to EU target.	Commission can share a potential gap between sum of national contributions and EU target among Member States.
Gap filling mechanism	No possibility to take actions if a Member State is above its trajectory.	If a Member State is above its trajectory in 2025/2027/2029, it must take additional measures within one year.

Energy Savings Obligation (Article 8 and Annex V)

The energy savings obligation is a pillar of the Energy Efficiency Directive, which is currently delivering about half of the overall EU energy efficiency target through national energy efficiency policy measures targeting energy end-users.[2]

Since 2021, Member States must achieve 0.8% new annual end-use energy savings. **The recast progressively raises ambition: 1.3% in 2024-2025, 1.5% in 2026-2027 and 1.9% in 2028-2030.** This requirement is cumulative, meaning that Member States must sustain the annual savings achieved in one year over the following years, until the end of the obligation period in 2030.[3] **The progressive increase is equivalent to a flat rate of 1.49% over 2024-2030, which is almost a doubling of the current ambition level.** Member States will also be required to achieve the 1.9% annual energy savings rate in the next ten-year obligation periods, starting with the period 2031 to 2040.

There are no changes to the strict accounting rules of Article 8 set in Annex V that are based on the principle of additionality to EU law and market trends, and materiality (the savings must originate from the declared policy measure). However, the new revised provision clarifies that as long as they comply with the key principles of Article 8, energy savings resulting from emergency measures and from renovations of buildings under the Minimum Energy Performance Standards of the upcoming revision of the Energy Performance of Buildings Directive (EPBD) can be counted.

The EED recast also introduces a **new requirement for a share of the end-use energy savings to be delivered among people affected by energy poverty**, vulnerable customers, low-income households and, where applicable, people living in social housing; this ringfencing is crucial to ensure a just and fair energy transition. The share of savings will be determined by the proportion of households living in energy poverty as declared by Member States in their NECPs or, if not available, by an average of four indicators.

Finally, the agreed compromise restricts the accounting of energy savings stemming from direct fossil fuel combustion, with some exceptions. Under the new Article 8, savings from direct fossil fuel combustion are excluded from 2024 onwards, and the associated policy measures are excluded from 2026. Fossil fuel savings in energy-intensive enterprises in the industry sector can be counted until 2030, if specific conditions are met.

2. Impact assessment report accompanying the Proposal for a Directive of the European Parliament and of the Council on energy efficiency (recast)

3. Member States can spread the savings over the obligation period, as long as they achieve the required cumulative amount of savings at the end of the period.

Table 2: Comparison between current and new EED provisions on the Energy Savings Obligation (Article 8 and Annex V)

	Current EED	EED Recast
Annual savings rate	0.8% from 2021 to 2030.	1.3% in 2024-2025, 1.5% in 2026-2027 and 1.9% in 2028-2030. Equivalent to a 1.49% flat rate over 2024-2030.
Accounting of savings	Strict rules on additionality and materiality of the savings reported.	Additionality and materiality rules are maintained (with some clarifications of the savings that can be counted).
Ringfencing for energy poverty	No obligation to deliver savings among people in energy poverty.	Mandatory share to be delivered among several groups affected by energy poverty. Ringfencing must be based on the share of energy poverty declared in the NECPs or, if not available, average of four indicators.
Fossil Fuel Savings	No restriction on the accounting of savings from direct combustion of fossil fuels.	Savings stemming from direct fossil fuel combustion are restricted. Savings excluded from 2024, policy measures from 2026. Exemption for energy-intensive enterprises in the industry sector.

Obligations for public authorities (Article 5, Article 6 and Article 23)

The compromise reached on the EED recast sets **several new obligations for public authorities** and more generally for the public sector. However, the final text introduces many exemptions and delays, which lowers the impact those provisions will have on the ground.

Public sector obligation (Article 5)

The recast EED introduces a **target for Member States to reduce the energy consumption of all public bodies combined by 1.9% each year** (this objective is at first indicative and only becomes binding two years after the transposition deadline). This objective applies to public bodies defined in Article 2 as national, regional or local authorities, as well as entities directly financed and administered by public authorities. Member States may decide to exclude public transport and armed forces from the baseline to calculate the energy consumption of public bodies, but energy savings in those two sectors can still count to fulfilling the obligation.

The energy consumption of small municipalities with less than 50,000 inhabitants is also excluded until 31 December 2026; very small municipalities with less than 5,000 inhabitants are excluded until 31 December 2029. To comply with this provision, Member States must indicate in their NECPs (or its update), the energy consumption of all public bodies per sector and the measures they plan to achieve the energy reduction goal.

Renovation requirement for public buildings (Article 6)

Article 6 had been slightly improved compared to the current article, but not to the level needed to ensure that the public buildings can drive the Renovation Wave. The scope of the requirement has been widened from an annual rate of 3% of the floor area of central government buildings in the current EED to **3% of the floor area of buildings owned by public bodies** (see the definition from Article 2 above). "Buildings for social purposes", as originally supported by the European Parliament, remain out of scope. Member States will also have the possibility to exclude social housing from the renovation obligation, on grounds that the renovations are not cost-neutral or would lead to substantial rent increases.

On the depth of renovation to be achieved, public bodies' buildings must now be renovated to Nearly-zero energy buildings (NZEBs) or Zero-Emission Buildings (ZEBs) levels, leaving flexibility to Member States. They can also choose to renovate at a lower level of performance certain buildings' categories such as historic or religious buildings and spread the excess savings achieved in one year over the following ones.

A different alternative approach to the **renovation requirement**, compared to the one in the current EED, **is introduced**, which requires Member States to set up a Building Renovation Passport and delays the requirement to achieve NZEB level to 2040. On a more positive note, the energy savings delivered by the alternative approach must be quantified and be equivalent to those of the default approach.

Finally, Member States must set up and make publicly available an inventory of buildings that are not just owned, but also occupied by public bodies (with a surface over 250 sqm); this inventory will have to be updated every two years. The inventory should collect several data and information, including the floor area, the measured annual energy consumption and the energy performance rating of each building.

Table 3: Comparison between current and new EED provisions on the obligations for the public sector (Articles 5 and 6)

	Current EED	EED Recast
Public sector obligation (Art 5)	-	Energy consumption of all public bodies combined to be reduced by 1.9% per year (target remains indicative for the first two years after transposition).
Renovation requirement of public buildings (Art 6)	3% of the total floor of buildings owned and occupied by central government buildings, to be renovated to minimum energy performance requirements.	3% of the total floor of buildings owned by public bodies to be renovated to NZEB or ZEB levels.
Exemptions (Art 6)	Exemptions for historic, armed forces and religious buildings.	Member States can exempt social housing and renovate historic, armed forces and religious buildings to lower levels of performance.
Alternative approach (Art 6)	Alternative approach can be met with any measure delivering the same amount of energy savings.	Alternative approach requires to introduce a Building Renovation Passport and that the building reaches NZEB by 2040. It must deliver the same savings as the default approach.

Local heating and cooling plans (Article 23)

The Energy Efficiency Directive recast mandates each Member State to draft a comprehensive heating and cooling (H&C) assessment and integrate it into the update of their NECPs. Until now the H&C assessment was a standalone document.

In addition, **Member States will have to ensure that regional and local authorities prepare local heating and cooling plans** (with municipalities with less than 45,000 inhabitants being excluded) based on the comprehensive H&C assessments. Those plans will have to be compliant with the Energy Efficiency First (EE1st) principle and include a trajectory in line with the climate neutrality objective. They will also have to be assessed by “a competent authority” and, if necessary, followed by implementation measures.

Energy Efficiency First principle (Article 3)

The EED recast introduces a specific article on the application of the EE1st principle, providing for the first time a clear legal basis for its streamlining in energy-related decisions and investments.

The agreed text requires Member States to ensure that **energy efficiency solutions are assessed in the planning, policy and major investment decisions** related to energy systems, and non-energy sectors that have an impact on energy consumption. Regrettably, this applies only to "major" investment decisions with a value over 100 million euros each, or 175 million euros for transport infrastructure projects. These high thresholds can, however, be revised by the Commission after an assessment is carried out two years after the transposition deadline.

The new provision requires Member States, among others, to:

- **Identify an entity or entities in charge of monitoring the application of the EE1st principle** and ensure that this monitoring materializes;
- Promote and, where cost-benefit assessments are required, **ensure the application of methodologies that allow a proper assessment of the wider benefits of efficiency solutions**;
- Report to the Commission, as part of their NECPs, an **assessment of the principle's application and a list of actions taken to remove regulatory and non-regulatory barriers to its implementation.**

Finally, six months after the entry into force of the EED recast, the Commission is tasked to **adopt guidelines to establish a common framework to develop cost-benefit methodologies that quantify the multiple benefits of energy efficiency**, which Member States may choose to use.

Energy Management Systems and energy audits (Article 11)

The EED recast sets out new rules for companies on energy management systems and energy audits based on the energy consumption of a company, and not anymore on its size, as in the current EED. The agreed text **requires enterprises with an energy consumption over 85 Terajoules (TJ) to set up an Energy Management System; companies under 10 TJ will have to carry out an energy audit**, at least once every four years, unless they have an Energy Management System already in place. The proposal to introduce a mandatory implementation of the audit's recommendations under a certain payback period, as supported by the European Parliament, was not included in the final deal.

Instead, auditors will have to draft Action Plans to implement the audit recommendations, which must be transmitted to the company's management, published in the annual report and made publically available (with exemptions to protect the confidentiality of business information). In addition, Member States may establish guidelines to support enterprises in the implementation of those recommendations.

Table 4: Comparison between current and new EED provisions on energy management systems and energy audits (Article 11)

	Current EED	EED Recast
Energy Management System and energy audit requirements	Obligation for companies above a certain size to undergo an energy audit.	Energy consumption of the company (not size) becomes the metric of the article. Companies over 85 TJ must implement an Energy Management System. Entreprises over 10TJ must undergo an energy audit (unless they have an Energy Management System in place).
Follow up to the audit	No mandatory follow-up of the audits'recommendations.	Action Plans to implement audits' recommendations must be transmitted to the company's management and included in the annual report.

Conclusion: Time for implementation

With the finalisation of the negotiations on the EED recast, the implementation period begins.

2030 is around the corner and Member States must start accelerating the implementation of energy efficiency measures to ensure the EU can meet its climate and energy security long term goals, in a way that is fair and affordable for the most vulnerable.

In the next weeks, the Coalition for Energy Savings will **publish detailed implementation briefings** to support national partners and authorities turning the EED recast into concrete actions on the ground for the benefit of citizens and businesses.

The Coalition for
ENERGY SAVINGS

The **Coalition for Energy Savings** 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, local authorities, energy agencies, energy communities and civil society organisations in pursuit of this goal.

Coalition members represent:
- more than 500 associations, 200 companies, 1,500 cooperatives
- 15 million supporters and 1 million citizens as members of cooperatives
- 2,500 cities and towns in 30 countries in Europe

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