

Opinion of Energie-Cités on :

Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL [COM(2003) 739 final]

http://www.europa.eu.int/comm/energy/en/com_2003_0739_eng.pdf

I - Resumed general presentation

Context

This proposal, focusing on the promotion of end-use efficiency, should be regarded as a necessary instrument to complement the recently adopted legislation on the opening of the internal energy market, which mainly leads to efficiency improvements on the supply side.

Memorandum

Considering that the functioning of the energy market does not allow *"market forces to allocate economic and natural resources effectively"* and that measures should be taken to improve this, the Commission draws up a list of the main obstacles:

- lack of a harmonised and credible framework of instruments, mechanisms, definitions and information regarding energy efficiency services and measures.
- institutional and legal barriers,
- fragmentation of the efficiency market, lack of visibility of savings potentials,
- lack of knowledge on the cost-effectiveness, returns and risks of investments in energy end-use efficiency.
- Volatile energy prices because payback times are uncertain,
- Problems in financing energy efficiency measures and limited access to capital,
- investor-user dilemma / renters-owners for example, residential buildings and offices
- division public sector budgets into completely separate budgets for investments in energy-using technology,
- a perceived higher risk regarding new and unknown – although often more efficient - technologies,
- system for calculating and contracting the size of the fees for suppliers of energy end-use technologies, as well as for installation engineers, builders and architects

The definition of energy services

"Energy end-use services", or *"energy services for end users"*, is an expression used to denote those **services or physical amenities that energy provides to the end user in an integral package**, including the technology needed to produce these services. Examples are indoor thermal comfort, lighting comfort, domestic hot water, transportation, product manufacturing, etc., all of which can have quality standards attached to them.⁴ Energy end-use services thus require a combination of energy (either commercial energy or energy obtained from the environment via passive means) and energy-using equipment or technology.

For the purposes of this Directive, the term "energy services" will thus refer only to integrated energy end-use efficiency services, which include a strong element of energy-efficient end-use technology and the necessary energy to run it when they are delivered or supplied. Other measures for improved energy efficiency, such as efficient lighting sources, control systems and boiler replacement, would qualify as energy services as well if they were combined with the delivery of energy. Even without integrating energy, these measures are still very important in developing the market for energy services.

Objectives

- ensuring more efficient end use of energy by supporting and accelerating the development of a smooth functioning, commercially viable and competitive market.
- providing credible information, mechanisms, tools and incentives for companies, such as energy distributors and retail suppliers, energy service companies, equipment installers, consultants and all other prospective and qualified providers,
- adopting **general national targets** of annual 1% cumulative savings to promote energy end-use efficiency and to ensure the continued growth and viability of the market for energy services.
- ensuring that retail suppliers or distributors of electricity, natural gas, fuel (heating) oil and district heating offer and actively promote energy services and/or energy audits.(...) the active partnership of the energy providers in this endeavour is essential to the proper functioning of the market.
- appointing a body or agency that will oversee the savings obligations, the energy services obligation and the task of monitoring and verifying the fulfilment of these obligations;
- establishing publicly overseen financing possibilities for energy end-use efficiency, especially for investments with comparatively long payback requirements or high transaction costs.
- ensuring that the public sector in each Member State sets a good example regarding investments, maintenance and other expenditures for energy-using equipment, energy services and other energy efficiency measures.
- requiring Member State regulators bodies to take measures for the introduction of innovative tariffs, cost recovery regulations, revenue caps and similar instruments and obligations to promote energy services, energy efficiency programmes and other energy efficiency measures
- establishing energy efficiency programmes that promote and facilitate the provision of energy services and energy efficiency measures, such as energy auditing, energy and tariff advice provision, the provision of financial instruments for energy savings, etc;
- ensuring that end-users are provided with competitively priced individual metering and informative billing that reflect their actual energy consumption and, as nearly as possible and when appropriate, its actual time of use.

The overall energy savings potential, the general target and the public sector target

The technical potential for savings is at about 40%. The economic cost-effective savings potential is at about 20%, 22% in the buildings sector. The general target is 1 % savings per year. The 1.5 % target in the public sector is therefore more ambitious than the general target.

According to the Commission, *“energy efficiency is a strategy to deal with scarce public funds while at the same time addressing serious energy and climate challenges, using the concept of “leadership by example”*”.

The economic impact of energy savings targets

Energy distributors and retail suppliers

added value to the energy supply industry, allowing for greater product differentiation and increased competitiveness for energy on the basis of non-price factors (such as product quality); increase productivity (value added/man-hour); increase revenues and allow for higher profit margins (energy retailers and distribution companies may experience reduced sales of energy to individual customers, but this can be more than compensated for by increased revenues); opportunity to choose demand management instead of supply and distribution system investments as a means to meet expected increased demand.

Manufacturing , construction industries and SME's

These remaining non energy-intensive manufacturing industries, such as SME's, the engineering products industry, the buildings industry and the service industry, should together with households and the transport sector deliver the savings target.

The net impact on employment in the manufacturing and construction industries of a 1% annual improvement in energy efficiency has been shown to be substantially positive,

Consumers

They will also benefit significantly from the 1% improvement in cost-effective energy efficiency. The increased production and availability of energy-efficient models will lower their unit production cost and their price.

The market for energy services and energy efficiency measures

If the necessary information is provided on energy services, if contractual, financial and legal instruments are put in place, if credibility and guarantees of performance and savings are established and if end-use customers and financial markets respond rationally, this would create a market for energy efficiency worth between 5 and 10 billion euros per year

In addition, the energy efficiency market creates considerable real added value and is often characterised by highly labour-intensive investments.

These lead to many positive local and regional effects, such as, for example, substantially increased employment when large retrofitting projects in the buildings sector are carried out.

Performance contracting ensures cost-effectiveness based on a calculated and guaranteed commercial potential. The long-term potential market for performance contracting of energy services and energy efficiency measures in the EU has been estimated to be in excess of 25 billion euro.

II – To what extent are local authorities affected by the proposed directive?

Except for a few examples, local authorities are not explicitly mentioned in the official documents, as is unfortunately often the case in the Commission's documents. Is this for reasons linked to the principle of subsidiarity? Or is this because they are considered to be consumers like any others? We do not know the answer.

Nevertheless, we would like to demonstrate that municipalities are affected by key elements of the proposed directive.

1. Municipalities are energy consumers

They are affected like any energy consumers, but to a greater extent:

- They consume energy in their buildings, lighting, pumping, water and wastewater treatment operations etc. and the amounts involved may represent up to 3- 6% of their operating budgets,
- The target set is a 1.5% reduction in energy use per year in the public sector,
- They have to set an example to citizens and local stakeholders, who are users of their municipal buildings,
- Most of them have gained valuable experience and achieved measurable results, including in the use of energy services,
- Some are involved in campaigns aimed at displaying the energy performance of their buildings (DISPLAY®) or are involved in certification processes,
- Through public purchasing, they can create an incentive for market suppliers to provide more energy efficient products and services.

They are therefore affected by the provisions of articles 4, 5, 7, 11, 12, 13.

2. The municipalities are energy distributors and/or retailers

Although this is not the case throughout the whole Europe, many municipalities are responsible for providing electricity, gas and heat:

- Directly, through their own services, as part of their responsibilities
- through the intermediary of a municipal company fully or partly owned by the local authority,
- in the context of concession contracts with publicly or privately-owned companies.

Some municipalities have experience in demand-side management through the provision of services and schemes to their clients.

They are therefore affected by the provisions of articles 2, 6, 10, 12 and 13.

3. The municipalities are planners/investors

Municipalities are:

- Directly responsible for the investments they make themselves
- Indirectly responsible for development projects that will involve both private and public investors and/or for the social housing organisations they control.

These investments, whether in new constructions or in extensive renovation work, represent considerable amounts of money and have a significant influence on energy use. The involvement of local authorities in strongly demand-oriented actions, including the promotion of renewable energy sources, may help reduce energy consumption even further.

They are therefore affected by the provisions of articles 5 and 9.

4. The municipalities are motivators

Many municipalities:

- Provide information and advice to citizens and local economic players, either directly or through local energy agencies and/or information centres: information on energy saving services could be integrated with these services,
- Have set up local support funds or mechanisms, sometimes on the basis of performance contracts made with citizens.

Municipalities therefore contribute to stimulation of the market for energy services and energy efficiency in general.

They are therefore affected by the provisions of articles 7 and 11.

5. Local growth and employment are of concern to local authorities

Any energy policy that gives the priority to demand-side management has a positive impact on local economic activities. Whereas centralised production concentrates the impact in terms of new jobs in a few areas, more demand-oriented action (like decentralised generation) contributes to a more even distribution of jobs in sectors such as the building trades or service industries.

Local authorities are therefore interested in promoting actions that are aimed at reducing energy end-use. The proposed directive, like the proposal for a directive on the energy performance of buildings, is expected to have a positive influence on the local job market.

III – The opinion of Energie-Cités

1 - Energie-Cités gave a warm welcome to the objectives of the Green Paper "Towards a European strategy for the security of energy supply in Europe", which placed energy efficiency as its number one priority and stated that the European Union had to rebalance its supply policy by taking clear action in favour of energy demand.

Energie-Cités stated: "What is needed is a change of paradigm: a demand-driven culture must substitute for a supply-driven culture. Energie-Cités would like to believe that a reorientation of policy in such a direction will be given practical expression (...). However, redressing the imbalance between the supply side and the demand side will imply political, fiscal, human and financial resources to give more power to the demand side."

2 - Energie-Cités therefore warmly welcomes the proposal for a directive on "energy end-use efficiency and energy services", which gives legal and practical expression to the guidelines expressed in the Green Paper. We agree with most of its content:

- the memorandum which justifies the proposed legislation,
- the targets set and their “*mandatory*” nature, including the specific effort required from the public sector to achieve a 1.5% saving target per annum and the improvement in public purchasing guidelines in order to encourage energy savings,
- the methods that are proposed, which are a combination of market mechanisms and public stimulation, with energy companies being involved in the process.

3 – However, the credibility of such an initiative may be impaired by the simultaneous presentation, in the same package, of the initiative on Trans-European electricity networks.

http://europa.eu.int/eur-lex/fr/com/pdf/2003/com2003_0742fr01.pdf. Has the Commission so little confidence in the effect of the Cogeneration Directive (intended to promote generation modes that are closest to the consumers) and in the effect of the directive aimed at reducing energy consumption referred to in the present opinion paper that it by-passes them by proposing investment in transmission capacities? Is this not giving the wrong signals to the public? One cannot fail to note that, whilst the *Green Paper* gives priority to “action on the demand-side”, the “general public” version of this document first mentions “action concerning supply” http://europa.eu.int/comm/energy_transport/fr/lpi_lv_fr1.html. Such decisions are liable to be prejudicial to the implementation of energy saving measures since they discourage even the most enthusiastic. Energie-Cités would like to not see these initiatives examined in parallel, not presented in the same package.

4 – As always, the risk of creating a serious gap between the objectives set (upon which we agree) and a very different reality lies in the implementation details (the legal framework, the involvement of players, the resistance to change etc). We are aware that such a change in emphasis is a real challenge. We will remain vigilant throughout the decision-making process, from the discussion and final adoption of the Directive to its enforcement and its implementation in the Member States. In this respect, the first reactions from the energy companies, especially the electricity companies, (Eurelectric <http://www.europarl.eu.int/hearings/20040217/itre/scowcroft.pdf>), may give cause for concern, especially in the light of the considerable pressure that they bring to bear on law-makers by various means.

5 – Without entering into the details of the amendments, Energie-Cités would like, in particular, to insist on the following:

- as far as the baseline energy consumption is concerned, the definition and method that will be used to calculate energy savings must on no account be used as a pretext for reducing the scope of the targets set. There is indeed a risk that counter-lobbies opposed to this Directive will try to undermine the mandatory nature of the directive.
- The final provisions must avoid creating a bureaucratic system or too heavy a system. This could give rise to negative reactions amongst market players. There must be flexibility as to the means used, but to compensate for this the targets must be mandatory.

6 – That the development of a market for energy savings and energy services cannot be guaranteed by market mechanisms alone is a fact, and the directive should take this into account more. It is for this reason that Member States must take measures to develop specific programmes. We know by experience, however, that it is essential that “top down” processes be backed up by a strong involvement of local players (municipalities, local energy management agencies, community organisations etc.) in order to prepare for the directive coming into force and to use the results of experimental actions to improve the conditions of its implementation. The proposed change in emphasis implies a cultural change in the way energy issues are tackled and requires therefore that a set of measures aimed at citizens and decision makers be taken at all levels and in all areas. Only through a “bottom up” approach will this be possible and both Community and national support programmes should promote local action.

7 – Energie-Cités will encourage municipalities to implement the provisions of the proposed directive in a voluntary way, without waiting for the directive to be adopted and transposed into national legislation. This is the objective of the Conference organised in Martigny (CH) on 22nd-23rd April 2004 on the theme: “*Sustainable local energy policy: working in synergy with the private sector?*” Other initiatives will be taken over the next months, following the example of Energie-Cités who launched the DISPLAY Campaign for the voluntary display of the energy performance of municipal buildings (www.display-campaign)