DEBRIEFING ENERGY EFFICIENCY DIRECTIVE
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1) General Background

5 years after the Heads of State committing to a voluntary target of reducing energy consumption 20% by 2020, EU member states are way off target.

Some different pieces of legislation exist today that shall contribute to the EU's effort to energy efficiency but have failed in delivering the needed savings in energy consumption.

This proposed Directive on Energy Efficiency shall repeal two existing pieces of legislation - the ESD, or energy Savings Directive & the Cogeneration Directive. It aims to fill the gap in effective measures to perform better, and in doing so, to provide a boost to the economy.

Improving energy efficiency and saving in Europe not only makes sense in terms of realising the EU's energy security and climate change goals, it also makes broader economic sense, stimulating economic activity and creating employment.

Energy imports of oil and gas constitute the single biggest transfer of wealth from EU27 countries to the rest of the world. In 1999 the EU27 spent more than 84 billion Euros on energy imports - 1% of the GDP of the EU. In 2011 the EU 27 spent more then 488 Billion Euros on energy imports - six times more than in 1999 and 3.9% of the GDP of the EU.

Brief history

- In 2007 the European Council decides under German EU-Presidency 20/20/20 Strategy for renewables, Greenhouse Gas (GHG) reduction and energy efficiency. In 2009 the Renewables target and the GHG reduction targets are made legally binding through specific legislation in the so-called "EU Climate Package" (Renewables Directive, EU ETS Directive on the third phase, EU effort sharing Directive). No legislation was put forward at the time on energy efficiency.

- In 2010 the European Commission's (EC) assessment for Energy Efficiency Plan shows that EU only achieves nearly half of its 20 % energy efficiency target, policies to deliver 202 million tons of oil equivalent (Mtoe) of energy savings are needed

- In June 2011, the EC proposes a new Energy Efficiency Directive which was supposed to fill in the gap of 202 Mtoe. The EC proposes simple but ambitious measures: legal obligation to establish energy saving schemes in all Member States, public sector to lead by example and major energy savings for consumers. The EC announces a two step approach, building first on the measures and if they would not deliver to come forward with binding targets;

- In February 2012 the European Parliament (EP) Industry Committee adopts an ambitious report with a very large majority (Claude Turmes report on the Energy Efficiency Directive) and gives the EP negotiating team the green light for informal First Reading negotiations with the Danish presidency. The EP report includes binding (overall and national) targets and measures but also greater flexibility in implementation. The content agreed on in the ITRE Committee summed up to he equivalent of 21% of energy savings in 2020. On the contrary, the Council started the negotiations with the EP on the basis of a very weak ambition of a mere target of around 12.6% in 2020, i.e. roughly 3% about the baseline.

- On 13th June 2012, After 6 informal trilogues a political agreement has been reached on a text including in particular the enumerated and developed elements here below:

2) Central building blocks of the EED & Assessment of Outcome

First ever legal EU target for energy efficiency (articles 1, 3 and 19)

[+] The combination of article 1, article 3 and parts of article 19 transform the "political declaration" of March 2007 Heads of States into a legal framework under which

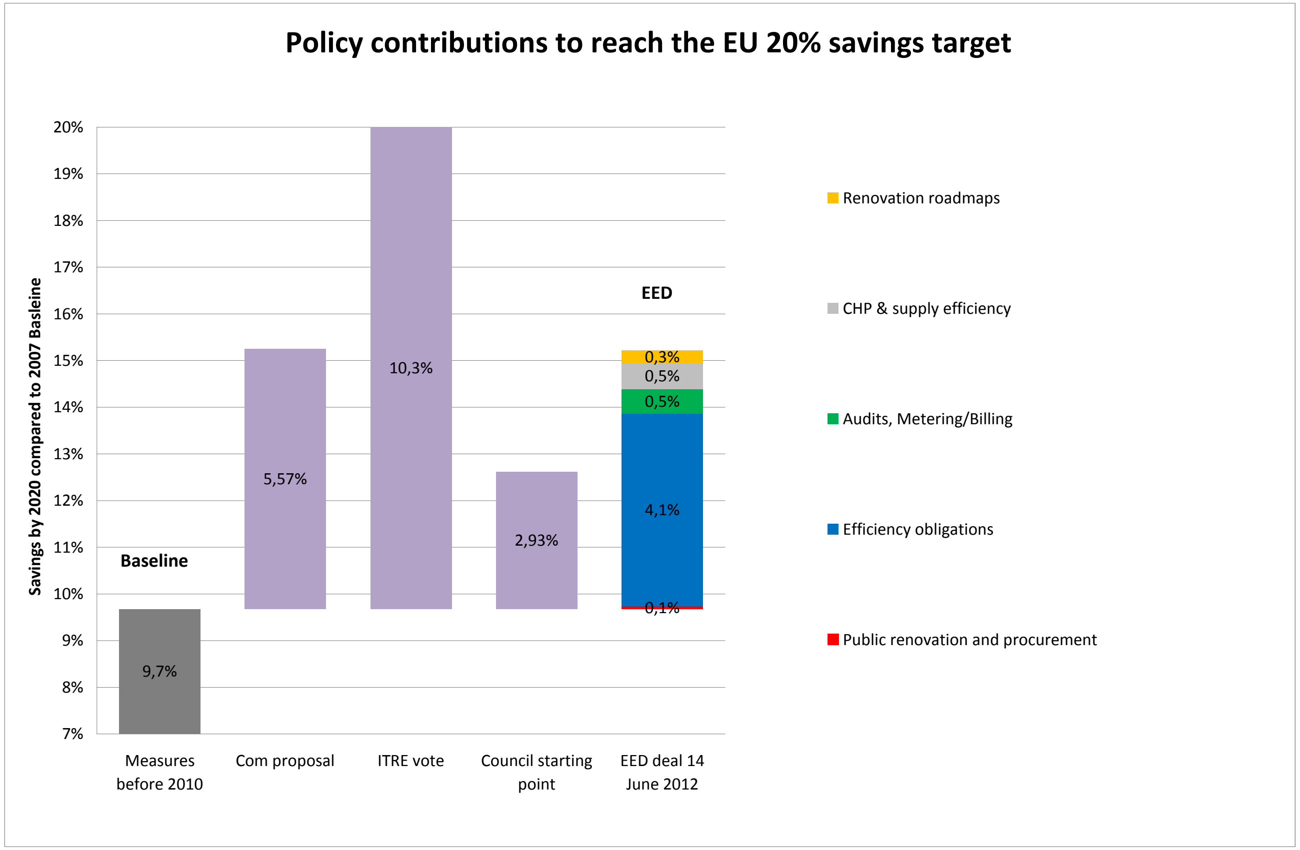
-EU as a whole shall not consume more than 1474 Mtoe in 2020 (or 1078 in final energy), a 20% reduction in energy consumption in 2020 compared to projections.

- national Member States to fix national energy efficiency targets and notify the European Commission on who will monitor whether the 2020 20% target is achieved. If MS are not on track, the Commission will as soon as 2014 come back with adjusted measures and, if necessary, with national binding efficiency targets.

[-] Member States fiercely opposed agreeing on binding targets for energy efficiency.

Ambition of the Directive

[-] The new Directive should ensure that EU will move from 9,7% to about 15% of energy efficiency gains in 2020. According to the Commission an additional 2% of savings could be delivered if future - but not yet approved - measures, notably CO_2 and cars and boilers labelling, are fully approved and implemented. Which obviously is far from being a done deal. In any case additional savings measures will have to be adopted in order to have a chance to achieve the promised 2020 energy efficiency target. There will be a revision of the national EE targets in 2014 and/or the revision of article 6 in 2016.



National Energy Efficiency Action Plans

[+] Requirement to MS to come forward every three years with a national efficiency action plan - 2014, 2017, and 2020 - built on a binding template. Moreover the agreed text includes voluntary national targets outlining the objectives to reach. Based on both elements the EC can assess the national implementation of the Directive and its measures, and their effect can be measured and the figures can be compared.

Financial instruments (article 15a, recital 33a to 33e)

[+] This is a meaningful addition to the initial proposal - its content brings pressure on Member States to deliver stable financing regimes to finance efficiency measures. The Parliament managed to impose the inclusion of a link to Structural funds and revenues from ETS auctioning.

Energy efficient buildings (articles 3a and 4)

[+] Article 3a is giving the much needed long term perspective to take action in the building sector. Buildings represent 40% of the energy use, Member states will have to set out a roadmap for achieving energy savings in buildings for a horizon going beyond 2020.
National long term strategies beyond 2020 should aim to achieve a real improvement of the building stock in particular through deep renovation and financial instruments that should be developed to support this.

[-] Article 4 on the so-called "exemplary role of pubic bodies' buildings" reduces the scope to a renovation rate of 3% of central government buildings only due to a very untreatable line kept until the end by governments.

Energy efficiency in public procurement (article 5)

[-] Member states were also very tough on this aspect and missed the chance to fully use their public procurement contracts (roughly 19% of EU GDP) to create an EU wide market for 'best-in-class' efficiency products and services. The final text is very weak. It certainly will not drive the innovation by making the EU a lead market for efficiency products and services.

[+] This article will be reviewed in 3 years time.

Energy company obligations (article 6)

This measure was meant to be the key engine in the Efficiency Directive proposal, it was meant to deliver the lions share of the savings to be achieved, and this through a mechanism that has already proven very effective in other parts of the world such as in California or under different forms even already in a limited number of EU Member States or regional markets (UK, France, Denmark, Poland, Italy, Flemish region of Belgium. The EP's initial expectation (ITRE vote in February) was that the implementation of this measure could have realised up to 110 Mtoe in savings, i.e. half of the 20% target..

[+] The agreed text sets the legal basis for such schemes all through the EU and therewith put another building block to the paradigm shift of today's energy markets. MS must ensure that the annual energy sales delivered to final customers is delivering cumulative 1.5% annual savings. This scheme will help overcome the often exclusive reliance on government budgets to pre-finance energy efficiency investments.

[-] Governments have put a hell lot of energy into the progressive weakening of the scope and ambition of this measure, starting with the erosion of what energy uses it should apply to. To erode it even further MS have obliged the EP to accept a number of exemptions and accounting tricks that will allow them to double count the effects of measures taken. These exemptions have now been capped at 25%, beside a special UK rebate (referred to as the "4+3" exemption") worth probably another 10-15%.

[+] The EP managed in the last round to impose that this article will be submitted to an early review in 2016, with the intention to review its ambition and remove the exemptions that MS now forced into the agreement.

Customer information and consumer organisations (article 8 and 8a)

[+] Customers will be provided better and more transparent information on energy costs and consumption. The intention is to ensure customers have control of their energy use. Billing information will be improved whilst the bills should take pace on the basis of the actual consumption at least once a year.

[+] All governments should work closer with their respective national consumer organisations when designing and implementing national efficiency programs.

Qualification measures (article 13)

[+] The agreed text sets the base for specific training and qualification programmes in Member States. This is a relevant element in the development of the energy efficiency market and services that are needed. Jobs creations in this sector have been estimated to a potential millions of jobs by 2020.

Energy Audits (article 7)

[+] This is the first-time obligation for large enterprises to undergo an energy audit or energy management system. These audits will need to start three years after entry in force of this Directive, i.e. October 2014.

Energy Services for SMEs (article 14)

[+] This is a strong article to promote the development of Energy Service Companies or ESCOs. They will be key players in the achievement of the 20% efficiency target and the paradigm shift of the existing energy market. ESCOs can for instance pre-finance large amounts of the energy efficiency investments, and the benefits to be shared between them and their costumers. This is a new business model for SMEs with promising potentials not only for energy efficiency but also in terms of jobs creations and innovation.

Combined heat and power (articles 10 and 12.5)

[+] There are requirements for increasing the use of combined heat and power (CHP) technologies in power production, which could yield between 25 and 50 MTOE in savings. If a cost-benefit analysis shows that CHP is economic this should be implemented or otherwise justified to the Commission. Priority access and dispatch for CHP shall be granted. This should not be at the expense of priority access and dispatch of renewables however.

Energy networks (article 12)

[+] The building of new power and gas distribution networks will be expected to achieve higher efficiency. The mandate of the Energy Regulators has been broadened to make sure they have an active role in this.

[+] A big win for the EP has been achieved as regards the setting of the first legal ground for Demand Side Management in the energy market. This is another significant new cornerstone in the paradigm shift of today's energy markets.

Rescuing the emissions trading scheme (article 19)

Attached to this Directive the Commission will come forward with a Written Declaration that should guarantee the following actions;

- to present the first report on the carbon market accompanied by a review of the auction time profile of phase 3,

- to examine in this report options for action with a view to adopting as soon as possible further structural measures to strengthen the ETS during phase 3, including among others permanent withholding of the necessary amount of allowances.

Next steps

- EP Plenary vote : **11 September 2012**
- Council's adoption expected **on 4 October 2012**
- Expected publication in the Official Journal on 10 October 2012 and entering into force on **30 October 2012**
- Transposition in national law can take up to **18 months after the date of entry force.**