BUSINESSEUROPE views on the review of the Energy Efficiency Directive

Key messages

- Being energy efficient is in the DNA of European entrepreneurs. Industry has been at the forefront of efforts in the EU to enhance energy efficiency. To continue on this path, it requires a well-designed and coherent policy, which incentives cost-effective actions.

- The overall level of ambition for energy efficiency should remain consistent with the post-2020 energy and climate framework agreed by EU leaders in 2014 and confirmed this year.

- Further progress must be achieved at the lowest cost. Therefore, it is important to look into sectors which have the most cost-effective efficiency gains, such as the building sector, in particular the existing buildings stock.

- Industry should not be covered by an absolute reduction target of energy consumption. This would give the wrong incentive to 'produce less' rather than 'being more efficient'.

- First experiences from implementation of the Energy Efficiency Directive show that some improvements are possible. In particular, under Article 7 more flexibility to choose the right instrument on national level will guarantee the most efficient solution, as well as the energy audits (Article 8) to be improved by reducing administrative burden and harmonizing definitions.

- The financing of energy efficiency needs to be scaled up. In order to have the largest impact, it is that financing schemes respect some basic principles and rules.
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Introduction

Energy efficiency is an essential theme of the Energy Union given its role in enhancing energy security and reducing greenhouse gas emissions. Undoubtedly, being energy efficient is key to tackle our energy and climate change challenges, and significant improvements achieved in many industrial sectors show it is in the DNA of European entrepreneurs.

European businesses are strongly committed to energy efficiency and have made a great contribution in making the continent one of the most energy efficient regions in the world. Industry has improved its energy intensity by almost 19 % in 2001-2011, which is more than any other sector of the European economy. And in comparison, the efficiency has increased twice as much as in the United States. In some sectors this can further be strengthened through the wider deployment of already available technologies and increasing behavioral changes.

Knowing that there is still large untapped potential in Europe, such as in the buildings sector, the financing of energy efficiency measures will have a crucial impact on how widely energy efficiency can be further progressed. In this context, the Energy Efficiency Directive (EED), as well as the Energy Performance of Buildings Directive (EPBD), are important elements of the toolbox to trigger investments. However, in order to make it a success, the on-going review of the EED needs to integrate a number of considerations and key principles, notably:

- While some first lessons could be learnt, it is difficult to properly assess the impact of the directive after such a short period of time;
- It needs to be well aligned with the agreed 2030 energy and climate policy framework as reconfirmed in the March 2016 European Council conclusions;
- It must place energy efficiency as a coherent part of the EU’s energy and climate efforts, removing overlaps and inconsistencies with other policies;
- It shall be outcome-oriented, fully respecting the principles of technology and fuel neutrality as well as cost-effectiveness and potentials among the different sectors.

The European business community is committed to continue its efforts to keep Europe as the most energy efficient global region. For this to happen, it needs the right policy framework. Against this background, this paper outlines BUSINESSEUROPE views on how to best shape the EED in the period after 2020. For the sake of clarity, it keeps the same structure of the recent publication consultation launched by the Commission.

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Article 1: Subject matter and scope and Article 3: Energy Efficiency target

Overall architecture of post-2020 climate and energy targets

While more energy efficiency (as well as renewable energy sources) progress is absolutely necessary in the EU and not questionable, it is important to have in mind the strategic orientation given by the European Council on the overall architecture of the post-2020 climate and energy targets. As the only “real” binding one, the greenhouse gas (GhG) emissions reduction target has been set as the leading target. This approach is the most cost-efficient way to the low-emissions-society. Energy efficiency should therefore be seen as one of the measures to achieve that main target, and not as an objective in itself.

Level of ambition on energy efficiency

In terms of energy efficiency ambitions, in October 2014, the European Council agreed on the target of 27% (with possible review and increase to 30%), to take into account also the need for improving the security of energy supply. This level of ambition was reconfirmed in the conclusions of the European Council of March 2016. For the sake of legal certainty and predictability, it is important that the design of the EED for the post-2020 period reflects this level of ambition. Raising the level of ambition, might trigger more investments in energy efficient projects, but could also have an adverse impact on cost-competitiveness of a number of sectors, due to financial constraints and longer return on investments.

Coherence among different policy instruments

The EU should rather ensure that all the elements of its energy and climate policies (especially the EU ETS directive, effort-sharing decision, renewable energy and energy efficiency directives) form a coherent whole. The review is a chance to look at overlaps with other pieces of legislation and apply the better regulation principles. The agreed targets architecture with GhG being the leading one should force policy-makers to look further into the mutual impact of different policies and to address the remaining overlaps and inconsistencies.

In particular, Article 7 of the current EED, with its binding obligation to reduce final energy sales by 1.5% annually, clearly overlaps with the EU ETS directive² and, thereby, reduces the effectiveness of the trading scheme. It increases the costs to attain the GhG target without adding extra benefits. According to some estimates, the energy efficiency and renewable energy directives alone could lead to an additional reduction in demand for ETS allowances of more than 700 million tonnes of CO₂ by 2020³. This is likely to mean that more expensive abatement options would take precedence over lower-cost ones and should therefore be avoided.

² As stated in the recent European Commission communication on An EU Strategy on Heating and Cooling, “… the EU Emissions Trading Scheme has provided an incentive … to invest in energy efficiency…” (page 7).
Target sectors with the most cost-effective potentials

Moreover, to achieve further progress at the lowest cost, it is important to look into sectors which have the most cost-effective energy efficiency potential, such as building sector, especially the existing buildings stock. Nonetheless, as elaborated further in the document, the financing aspect (including high upfront costs, limited access to financing or competing priorities) needs to be addressed in a coherent and cost-effective way. Existing technologies and energy efficient appliances could also be more widely deployed in all sectors and contribute to their energy performance.

Concept of energy efficiency target

Energy efficiency means the intelligent use of energy in a cost-efficient way. This is often not necessarily linked to total energy savings or energy use, especially in the industrial domain. The present expression, absolute primary or final energy consumption or energy savings, does not represent an ideal means to measure and contribute to energy efficiency.

For the European industry it is important to allow economic growth, which might mean growth of absolute energy consumption. An absolute reduction of energy consumption would provide the wrong incentive to “produce less” and risk of capping future growth prospects instead of “being more efficient”. The ICF study for DG Energy⁴ shows, that aggregate energy consumption of industry shall increase towards 2050 due to growth, even though efficiency will increase as well. As the untapped potential as well as future performance differ, some sectors may contribute more than others. Thus industry should not be covered by an absolute reduction target. Increased energy use can facilitate greater business efficiency if, for instance, it raises productivity or reduces raw material use.

Article 7: Energy efficiency obligation schemes or alternative measures to achieve annual saving target of 1.5% for all energy sales

Different member states have varying starting points and varying levels of potential for improving energy efficiency. Potential also differs from sector to sector. The annual target of 1.5% energy savings from final energy sales ignores these differences and/or the domestic contexts. The whole approach shall be reviewed in order to provide for more flexibility, to reflect better national circumstances and to improve energy efficiency in the cost-optimum way.

Member states should continue after 2020 to set their indicative national energy efficiency targets (article 3) based on bottom-up potential, and then have flexibility to achieve the target in efficient way. This could, for instance, be tax reductions,

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⁴ ICF study on Energy efficiency and energy saving potential in industry and possible policy mechanisms, Contract No. ENER/C3/2012-439/S12.666002, 1 December 2015
obligations schemes, voluntary long-term agreements or other measures, which focus on the most cost-efficient potential.

The whole of Article 7 is currently focused mainly on the obligation scheme instrument, with lesser focus on alternative measures. The obligation schemes can have advantages but also run the risk of impeding the development of competitive markets in energy services. Several other policy instruments are available for delivering energy efficiency savings. According to the European Commission, only four member states use an obligation scheme as the only instrument to achieve the saving target in Article 7. As a result, 24 member states use alternative measures to reach the target, and 12 of these use the alternative measures as the only instrument. Sometimes, such (sector-specific) measures can actually deliver more savings than energy efficiency obligation schemes. This flexibility to choose the right instrument gives member states the possibility to introduce the most efficient instrument regarding their national energy efficiency policy. These measures should therefore be further strengthened.

Article 8: Energy audits and energy management systems

Despite the fact that industry acknowledges the positive role of energy audits, the implementation of Article 8 has brought inflexibilities to some well-functioning auditing schemes and removed the possibility to incentivize the audits of large companies. For instance, the schedule of the first round of mandatory energy audits for large companies was unrealistic. Mandatory audits within a very short timeframe caused a market disturbance on the auditing service market and raised the actor's cost and lowered the quality of audits. There is also no EU-wide definition of what is a "large company". This allows different interpretations by different member states, and makes it difficult for companies operating in several member states to get an overview of these interpretations.

It must also be noted, that such audits in companies with large share of energy costs in production costs are in most cases already performing far-more advance audits. Therefore, the audits rendered compulsory by the Article 8 may have no or very limited added value in such cases.

The Commission should therefore consider reviewing the Article 8, based on first experiences from the implementation phase, in order to i) reduce the administrative burden on companies, ii) harmonize the definitions and iii) avoid market disturbances on the auditing service market.

Article 9-11: Metering, billing information and cost of access to metering and billing information

The roll out of smart meters is ongoing across Europe, with various levels of progress amongst member states. Existing requirements for smart metering systems and minimum functionalities are sufficient and no additional intervention is necessary.
Obstacles to the smart meter rollout are often not related to the technology but to the engagement of customers to adopt smart meters.

Empowering consumers relies on two important fundamentals: 1) smart meters (providing consumers with information) and 2) providing the right incentives to reduce consumption on the basis of price signals. In this respect, articles 9-11 and 12 should be focused on empowering the consumers to use energy more efficiently. As potential lies on the household level and in tertiary sector, the implementation of individual smart meters is necessary for consumers to be able to act on the energy market. The policy makers should also seek for ways how to make best use of demand response and flexible power consumption for energy efficiency.

The aspect of ‘who pays – who gains’ from an investment point of view is also important. The best measure to lower energy use for heating purposes is not necessarily through an installation of meters in every apartment. In apartment blocks the overall energy performance is key. Other investments can be much more cost-efficient and result in greater energy savings.

**Article 20: Energy efficiency national fund, financing and technical support**

The financing and the economics of energy efficiency investments have an important impact on how widely energy efficiency can be improved across Europe.

Although vital for facilitating demand for energy efficiency measures, finance mechanisms and investment alone will not drive demand from businesses and households. Therefore, it is important that the right framework and measures for energy efficiency sit alongside efforts to boost energy efficiency innovations and investments. Implementation of the EU energy efficiency policy has a major influence on the choice and availability of financing instruments in member states.

Taxation exemption can also be used to incentivize energy efficiency investments. They could be exempted from taxation or at least submitted to a reduced taxation scheme (operating expenses vs. service provision). Some countries already apply such tax policies but it is not the case in every member state. Yet, some schemes had to be phased out due to conflict with State Aid Guidelines. These Guidelines are an important aspect on financing tools and they need to be designed in order to allow for efficient incentives.

Another point to consider is the importance of accurate information about the expected benefits from the energy efficiency improvement. As it is a key to assure that investors appraise the benefits and payback time of investments in energy efficient measures and technologies. Additional cost burdens should be avoided in order to ensure a global playing field for the EU industry, while at the same time instruments should be developed to support energy efficiency technologies and innovation.

There are many studies and reports on financing energy efficiency and the work in this field continues. In February 2015 a report "How to drive new finance for energy
efficiency investments" covering buildings, industry and SMEs was published by Energy Efficiency Financial Institutional Group (EEFIG). They identified dozens of financial instruments for energy efficiency investments, where mature instruments like Dedicated Credit Lines, Energy Performance Contracting (EPC) and Risk Sharing Facilities have the widest applicability and use. The emerging instruments with the strongest potential were Energy Efficiency Investment Funds and Energy Service Agreements for industry and SME's, and On-bill Repayment and On-Tax Finance (PACE) for buildings.

The financing schemes need to respect some basic principles and rules:

- The schemes have to be transparent, stable, technology-neutral and even-handed. The application and decision-making processes need to be transparent and efficiently organized, which means the administrative burden is low and the duration of the whole process is reasonable.

- The financing is needed in various sizes of enterprises, from SMEs to larger companies. This is why the financing schemes and instruments should be available to the investments with variety of payback periods and the scale of investments.

- In addition to financing innovation and new technology, financing is needed also for energy efficient investments using existing technology or other investments where energy efficiency is an essential part of the investment. These kinds of investments form a majority of investments that aim to improve energy efficiency and they are the ones supporting the uptake of the latest most efficient technologies.

- National and sectoral circumstances require a differentiated approach. The European Institutes should focus on removing obstacles and barriers at European level and enable the sharing of best practices. Relevant legislation could be improved to promote utilization of full potential of financing instruments, for instance the Energy Performance Contracting in the public sector and also private sectors.

- Financing tools for energy efficient building renovation in particular need to be easily accessible and available now and in the long term. This requires a stable and long-term policy framework for energy efficiency in buildings setting a clear vision together with milestones. Both a revised EED and EPBD should be used to that end. While short term investment subsidies are not recommended in building renovation, since they can lead to a boom and bust situation, more long-term approach can provide for a secure and stable framework for investments.

- Financing mechanisms related to energy efficiency must give stable and planning secure conditions for companies, which invest in new technologies. Hence, risk mitigation or risk sharing mechanisms could have a very high impact.

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