Energy Flash

From Ugly Duckling to Superstar: how energy efficiency (almost) got to the top of the political agenda

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INTRODUCTION

Traditionally considered to be less 'sexy' than renewables, high hopes are now put on energy efficiency as expressed in the European Commission's Energy Efficiency Communication. According to the European Commission (EC), every additional 1% in energy savings will cut gas imports by 2.6%. Energy efficiency is therefore seen as an effective tool to boost energy security, reduce import dependence from Russia, cut energy costs and reduce greenhouse gas emissions.

However, until now the uptake of energy efficiency technologies and actual energy savings is failing to live up to expectations. The arguments put forward by the sector have failed to convince eastern European countries (and the UK) that are more concerned about the upfront costs of upgrading their infrastructure. Indeed, if there is a loser in the 2030 Energy and Climate negotiations[1], it is without doubt the energy efficiency sector. From the 40% binding target supported by the European Parliament to the 30% target put forward by the EC, EU leaders at the October summit found common ground on a non-binding target of "At least 27% energy efficiency increase from 1990 levels by 2030".

In this Energy Flash we look for the reasons why energy efficiency did not live up to its expectations and what the EC aims to do to make energy efficiency a success story.

Making the case for efficiency: existing instruments and impact

Currently, the EU is aiming for a (non-binding) 20% cut in its annual primary energy consumption by 2020. According to the latest figures presented by the EC in its Energy Efficiency Review from July 2014, the EU will be unable to meet this target, albeit by a small margin. By the end of the decade, savings of around 18% to 19% are to be expected.

It is important to note that a third of the reduced energy consumption is due to the lower than expected growth in Member States, both during and after the financial crisis. The EC keeps insisting that full implementation of existing legislation, ranging from the **Energy Efficiency Directive (EED)** to the **Energy Performance in Building Directive (EPBD)**, product regulations, CO2 performance standards for cars and the EU Emissions Trading System (ETS), should help to fill the gap.

The main challenges are encountered on the Member States front, namely the poor and often late implementation. In July 2014 the Commission started infringement procedures against 24 Member States (all except Cyprus, Italy, Malta and Sweden) that had not notified the EC of all national measures transposing the **EED** into national law.

Implementation of the **EPBD** represents yet another challenge. The lack of supervision and technical capacity for checking the compliance of energy performance at the local level or the need for more guidance pose some of the biggest problems. The new Climate Action and Energy Commissioner, Miguel Areas Cañete (Spain) highlighted these technical difficulties and the need for flexibility during his hearing in the European Parliament. Ironically, Spain is one of the two countries that have not yet submitted their national action plans.[2]

Other examples are the **Energy Labelling** and the **Ecodesign** Directives, which are currently up for review. Both are designed to use market mechanisms to support the uptake of energy efficient products. According to the technical assessment conducted for the EC in June 2014, an estimated 10% of potential energy savings from both directives are considered lost as a result of poor enforcement. Once again, the main problem here is insufficient market surveillance at the Member State level. In addition, some of the new measures such as the new A+, A++ and A+++ labelling have turned out to be inadequate and less motivating for consumers than originally anticipated.

Last but not least, the overall lack of awareness and expertise about **financing** is another obstacle to sufficiently stimulating the sector. Although more funding has been made available via the EU **Structural and Investments Funds (ESI)** and **Horizon 2020**, tailored financial instruments at the appropriate level are still needed and the closer these are to the consumer, the better.

Onto the next energy battle

Since the EC unveiled its proposal for the 2030 Energy and Climate Framework early this year, the energy efficiency sector, comprising a myriad of technologies, products and industries from electrical appliances to smart meters and cogeneration, has strongly advocated for the introduction of an ambitious and binding energy efficiency target. Industry argues that only a binding target is capable to stimulate investment and unleash the potential of what the new Vice President for Energy Union, Maroš Šefčovič has labelled, "the cleanest form of energy", meaning the "one that is never used".

Without a doubt, the sector is very disappointed with the climate agreement, arguing that the unambitious and non-binding targets are below business as usual trends. At the same time, the climate agreement paves the way for the next energy efficiency battle: the European Council has tasked the EC to propose priority sectors in which significant energy-efficiency gains can be made. Business has high hopes that its characterisation as a priority sector will bring important

[1] Energy Flash 1 – The 2030 Energy and Climate Framework

[2] The other is Greece

benefits in terms of financial support and regulatory advantages.

On the basis of the latest trends, the **building** sector is very well positioned to get a piece of the efficiency cake. With nearly 40% of final energy consumption and 36% of greenhouse gas emissions coming from houses, shops, offices and other buildings, the sector has been identified as key in terms of energy-savings potential.

Promoting clean energy in **transport** is another option to watch out for. According to Cañete, improving the energy efficiency of road vehicles through enhanced standards will considerably reduce emissions from transport. Urban mobility and all sorts of car-sharing and vehicle occupancy should also become more and more important. In addition, Member States will start implementing the Directive on the deployment of alternative fuels infrastructure adopted last October. Although less ambitious than initially expected –it does not set targets for the number of recharging points–, the package aims at breaking the "chicken and egg" dilemma with regards to the lack of infrastructure and therefore availability of clean vehicles such us Battery Electric Vehicles (BEVs) and Fuel Cells Electric Vehicles (FCVEs).

Cogeneration and smart meters, however, will need to step up their efforts if they want to be first in line. The Commission is currently looking at reinforcing the Directive on Cogeneration from 2004 to address the weak market uptake of this technology. According to industry data, cogeneration has not experienced significant market growth at EU level since the early 2000s. The impact of the EED still remains to be seen.

With regards to smart meters, which used to be one of the most exciting innovations in the energy efficiency field, their roll-out has come at a slower pace than expected. In its benchmarking report published in June 2014, the EC confirmed that two thirds of Member States (whose cost-benefit analysis were positive) are now committed to proceeding with, or have already completed (in the case of Finland, Italy and Sweden) the roll-out of smart metering.

However, there is still a long way to go in order to achieve the planned EU-wide penetration rate of 80% for electricity by 2020 - 70% or even less seems to be a more realistic rate. For gas, the expected rate goes down to 40%. Issues to tackle include assessing the need for a specific data privacy and security framework and ensuring that the right set of functionalities and standards are followed. Improving the communication about the benefits of smart meters (i.e. "get the consumer on board") is also a work in progress.

What's next?

Attention is switching now towards the Jobs, Growth and Investment Package that the Commission presented in Strasbourg on 26 November. The long-awaited announcement spurred buzz and excitement but above all raised a lot of questions about the actual set-up, selection process of the projects and most of all the funding sources. Energy efficiency is explicitly mentioned as one of the priorities. It is yet to be seen how the new Commission will manage to turn the "offensive" into tangible results.

Lastly, structural funds and the EU budget will also play a crucial role. As Regional Policy Commissioner Corina Crețu hinted, the new 2014-2020 programming period for regional policy could be one way to increase investments to boost energy efficiency. Finally, Dominique Ristori, Director General of DG Energy has warned that the EU would not rule out the use of taxes to boost energy efficiency and encourage further cuts in greenhouse-gas emissions.

The Commission will also start the review of the above mentioned Ecodesign and Energy labelling directives in the first quarter of 2015, based on preparatory work that was carried out over the past two years. A revision of the EPBD is also expected in 2015. More details on what is coming can to be followed via the Commission Work Programme for 2015 that will be published on 16 December.

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