Article 7: Energy Efficiency Obligation Schemes: Policy Guidelines

Regional Energy Efficiency Programme for the Western Balkans

Funded by the European Union

In cooperation with the Energy Community Secretariat

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Vienna
14 November 2018
Article 7 is a key policy area to reach 2020 target (and beyond)

One of the 3 key policy areas for achieving 2020 target (EU figures):

- Article 7: 23%
- EPBD: 21%
- Ecodesign and labelling: 44%

Impact likely to be even more significant for 2030 targets

Article 7 Notification for Energy Community Contracting Parties was due 15 March 2017 → Remains outstanding for all CPs!

Based on our experience under REEP, we have identified that CPs could benefit from further guidance to instigate necessary action:

- Energy Efficiency Obligation schemes
- Key Alternative Measures
The basic model of an EEO

Government obligates energy companies to deliver energy efficiency improvements.
Many of the EBRD and Energy Community Countries subject to Article 7 of EED* have put in place or are considering EEOs.

From our engagement with CPs we identified that particular circumstances of these countries require a tailored approach when trying to implement EEOs.
New Policy Guidelines prepared jointly by EBRD and Energy Community Secretariat on Article 7: EEOs

Policy Guidelines identify and discuss best practices for implementation of EEOs by CPs taking into account local factors

Aims to assess barriers and key success factors for implementing a successful EEO, with special attention paid to the particular circumstances of Contracting Parties market and regulatory environments

1. **LEGAL AND REGULATORY FRAMEWORK:**
   - Enabling primary legislation
   - Targets
   - Responsibilities
   - Enforcement provisions

2. **SCHEME ADMINISTRATION:**
   - Institutional structure and capacities
   - Scheme guidance
   - Operational methodologies
   - M&V systems

3. **OBLIGATED PARTIES DELIVERY MODELS:**
   - Routes to market
   - Funding/financing approach
   - Organisational strategies
   - M&V systems

• A successful EEO scheme needs all three pillars to be in place
Example of an issue and best practice approach on how to address

<table>
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<tr>
<th>Context</th>
<th>Challenges</th>
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<tr>
<td>Market liberalisation is ongoing</td>
<td>Costs need introducing to Allowed Revenue framework</td>
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<tr>
<td>Many retail tariffs remain regulated</td>
<td>OP concern over tight regulated margins</td>
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<tr>
<td>Dominant incumbents with little competition</td>
<td>Costs to consumer become more visible than benefits</td>
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CHALLENGE: COST RECOVERY
Best practice in managing cost recovery - France

**Unregulated Market**
- Electricity
- Natural gas
- Heating fuels
- Transport fuels

- Meeting EEOs requires grants
- Net cost to obligated parties (suppliers)
- Cost of doing business - passed to consumers
- Administrator monitors costs
- €0.4/kWh-cumac

**Regulated Market**
- Electricity
- Natural gas
- District heating

- Costs recovered through levy on bills
- Levy size is regulated as for other costs (1% of bills for electricity; 0.5% for gas)
- Can consider a performance-based incentive
Thank you
Rationale for an EEO

Consumers need help (audits, advice, financing, incentives, etc.) to invest in EE measures

- **Energy companies can overcome barriers, work directly with consumers, or support those who do**

EEOs place responsibility for EE on the actors in the sector directly connected to the provision of energy

- **Existing relationship with end users, access to data**

Energy companies can be a stable source of revenues

- **Access to capital, other resources, delivery network**

Energy companies also have key roles in other parts of an EE policy package

- **Consumer education, smart metering and tariff reform**
Operation of an EEO

UK Government sets savings target → Energy Regulator

- Energy supplier 1: can trade savings
  - DIY / other retailers: subsidise measures
  - Installers: install savings measures → Households

- Energy supplier 2: can trade savings
  - Local Authority: purchase savings
  - Installers: install savings measures → Households

- Energy supplier 3: can trade savings
  - Delivery agent: purchase savings
  - Installers: install savings measures → Households

- Energy supplier 4: can trade savings
  - Supermarkets / other retailers: subcontract savings
  - Installers: install savings measures → Households

- Energy supplier 5: can trade savings
  - Installers: install savings measures → Households

- Energy supplier 6: can trade savings

Energy Regulator sets individual savings targets / administers / enforces
Component 1: Legal and regulatory framework

- **Primary Legislation**
  - Defines obligation
  - Usually Energy Law or EE Law
  - Empowers responsible agencies

- **Secondary Legislation**
  - “Falls out” of primary legislation
  - Covers operational processes (e.g., development of calculation methodologies)

- **Tertiary Legislation and guidance documents**
  - Deemed savings and engineering tools
  - M&V guidance documentation
### Component 1: Legal and regulatory framework

<table>
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<th>Component</th>
<th>Key issues</th>
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<tr>
<td>Defining Obligated Parties</td>
<td>Which fuels and suppliers or distributors?</td>
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<tr>
<td>Defining size of obligation</td>
<td>Clear, predictable, realistic and affordable</td>
</tr>
<tr>
<td>Compliance periods and duration</td>
<td>Provide flexibility (allow banking/borrowing?)</td>
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<tr>
<td>Methodology for target setting</td>
<td>Lifetime, cumulative or annual targets?</td>
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<tr>
<td>Cost-recovery mechanism</td>
<td>Need to be financially viable for OP &amp; consumer</td>
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<tr>
<td>Defining eligible measures</td>
<td>Deemed list with option for bespoke solutions?</td>
</tr>
<tr>
<td>Calculation methodologies</td>
<td>Consider additionality, materiality and free riders</td>
</tr>
<tr>
<td>M&amp;V and QA processes</td>
<td>Robust but administratively manageable</td>
</tr>
<tr>
<td>Enforcement</td>
<td>Fixed or discretionary penalties?</td>
</tr>
<tr>
<td>Accreditation and trading</td>
<td>To allow for inter-OP or open trading?</td>
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<tr>
<td>Sub-targets</td>
<td>Residential and/or fuel poverty targets?</td>
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Key issues for EBRD COOs:

- **Cost recovery mechanism**: retail tariffs commonly remain regulated → costs need regulatory approval and introducing into Allowed Revenues framework:
  - Cost to consumer becomes more visible than benefits
  - Regulated margins are often tight (EEO much larger proportion of profit than cost)

- **Enforcement**: Legal basis for issuing penalties has been lacking or weak → non-compliance will damage scheme credibility

- **M&V regime**: low institutional capacity has affected the ability of administrators to establish and operate effective auditing regimes
Article 7 EU MS – policy instruments notified

- i) Any other policy measures, and/or category not clear, 157, 33%
- (f) Training and education in reducing end-use energy consumption, 26, 6%
- (e) Energy labelling schemes, 6, 1.3%
- (d) Standards and norms mandatory and applicable in MS under EU law[1], 25, 5%
- (c) Regulations or voluntary agreements, 46, 10%
- (b) Financing schemes or fiscal incentives (including grants), 184, 38%
- Energy Efficiency National Fund, 4, 1%
- EEOSs, 21, 4%

Article 7 EU MS – contribution of energy savings

Source: European Parliamentary Research Service (2016)