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ELECTRICITY FOR EUROPE

The review of progress towards the 2020 energy efficiency objective and a 2030 energy efficiency policy framework

A EURELECTRIC consultation response

April 2014

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EURELECTRIC is the voice of the electricity industry in Europe.

We speak for more than 3,500 companies in power generation, distribution, and supply.

We Stand For:

***Carbon-neutral electricity** by 2050*

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of **all low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

***Competitive** electricity for our customers*

We support well-functioning, distortion-free **energy and carbon markets as** the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

***Continent-wide** electricity through a coherent European approach*

Europe's energy and climate challenges can only be solved by **European – or even global – policies,** not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment to** ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.

EURELECTRIC. Electricity for Europe.

Energy efficiency targets and measures

Insofar as the current concept of energy efficiency remains an effective tool in addressing climate and energy security and affordability, EURELECTRIC offers the following comments to this consultation:

1. Do you think the right approach in addressing the shortfall is:

a) To define energy efficiency target(s)
b) Reinforced implementation of existing legislation, including active policy on infringements
c) Proposing new legislation
d) other

EURELECTIC subscribes to energy efficiency as a key item for reaching our commitment to enable a carbon-neutral power generation by 2050 as well as a key enabling factor for EU competitiveness, empowering customers and decarbonising society at large. To get the best cost-effectiveness out of energy efficiency, a more streamlined approach – driven by market instruments is key. A major lesson from the 202020 package has been that overlapping targets and instruments – some command and control some market based - do not result in the required level of overall cost-effectiveness. For the EU emissions trading scheme (ETS) covered sectors, addressing these overlaps and strengthening the ETS structurally will drive supply-side investment for energy efficiency in a more cost effective way and not jeopardise the completion of the internal energy market.

However, we also acknowledge that in specific and limited cases where crucial demand-side energy efficiency is not susceptible to a price signal, bottom-up regulation focused on specific actions for specific sectors may be necessary to correct market failures. This applies also to an efficient transition towards the electrification of heating/cooling and transport – as envisioned by the Commission in its 2050 roadmap but currently undermined by regulatory obstacles, specifically the current application of the primary energy factor in European policy, with which EURELECTRIC remains dissatisfied (see co-signed letter on PEF from 28 February to DG Energy- attached). Efficiency standards should be consistent with the definition of energy efficiency.

The main focus for EU energy efficiency policy needs to be on streamlining and implementing the existing legislation– as well as to strengthen the ETS to enable its crucial role for low-carbon investments (including energy efficiency on the supply side). We call on the Commission to encourage member states to properly implement the existing European legislation before embarking on more regulation. This is to avoid a repetition of instruments and targets undermining each other and technologies being picked by policymakers, not the market. The power sector continues to develop and transform toward new business models including energy efficiency services and decentralised generation. This development needs properly implemented and future-oriented energy legislation to grow and consolidate. Energy market operation requires technology neutrality to allow demand side response, interconnection, energy efficiency and storage to compete with generation.

Energy Efficiency Sectors

2. Do you think that further policy measures are needed at EU level to foster energy efficiency in buildings

e) Yes
f) No
g) No opinion

The energy saving potential from buildings in Europe is large - as laid out in the EED. EURELECTRIC would support more focus on the energy efficiency of buildings, however that this should be done by Member States, as there are number of specific issues that need addressing at the national level, not the European level. In so far as there is no cross-border impact that needs the Commission to step in, it should be in the Member States' interest to ensure its buildings are efficient as possible

Generally, EURELECTRIC identifies this sector as a priority for implementation of existing European legislation and in ensuring a level playing field for the technologies available to make buildings as energy efficient as possible. Energy efficiency of a building should be based on the energy need of the building itself. The share of low-energy buildings will be increased trough proper implementation of the EPBD, proper RD&D initiatives focusing on buildings with a CO2 -neutral energy system, especially for new buildings and major refurbishments. EURELECTRIC believes the renovation of existing buildings is important to reach energy efficiency targets, especially those which consume the most energy. As a building renovation target in the private sector seems unrealistic to achieve, renovation of private buildings should rather be encouraged by fiscal/financial incentives on MS level and remain the building's owner's responsibility. Energy efficiency measures for products being used in buildings (e.g. boilers) are settled within the eco design directive. Further, fair competition in the heating sector, reflecting both the effectiveness of reducing carbon emissions and improving energy security and affordability should be guaranteed in order to promote the most efficient and sustainable technologies.

EURELECTCRIC believes that through the roll-out of smart meters, making available financing schemes to trigger investments and awareness raising much can be achieved. Further, efficiency improvement incentives/ requirements on end-users and property owners would be effective in creating more demand for energy services.

3. Do you think that further policy measures are needed at EU level to foster energy efficiency in industry?

a) Yes
b) No
c) No opinion

At industry level the widening energy price differential compared to international competitors has been and will remain a strong driver to increase energy efficiency. Energy prices should reflect energy costs and this should be the key principle to promote energy Efficiency in European industry. EURELECTRIC believes that the European emissions trading scheme is the right instrument for efficiency improvements. In order to create incentives for energy efficiency measures beyond low-hanging fruits, we continue to advocate structural measures strengthening the ETS in order to make it fulfil its role better as the central market based instrument. The impact of policy on industrial competiveness should also be considered when developing policy measures. The energy efficiency directive already provides important impulses improvements in the delivery of information about the use of energy to industrial customers.

Further, as the market for energy services/decentralised generation is progressing and business models for the utility sector are transforming in this direction, EURELECTRIC calls on the Commission to ensure market access and a level playing field for providers in order to foster the growth in this sector, in both B2B and B2C.

4. Do you think that further policy measures are needed at EU level to foster energy efficiency in transport?

a) Yes
b) No
c) No opinion

The European power sector is fully committed to play a substantial role in decarbonising transportation. Policies should be developed to stimulate conversion from the use of fossil fuels to CO2-neutral energy carriers (electricity, biofuels and hydrogen) – that is to move the emissions from the vehicles to the energy generators which are regulated by the ETS. EURELECTRIC believes that the EU should provide a long-term regulatory framework promoting sustainable road and rail transport which could also entail financial and fiscal incentives to advance the electrification of society, ensuring that an increasing share of new vehicles can use electricity as power source. Similarly, electricity could substantially reduce maritime transport emissions, particularly in relation to fleet operations in harbours.

The use of public transport, and its electrification, should also be further promoted. A new assessment of efficiency and CO emissions in transport is thus needed, with the full internalisation of CO2 emissions in all means of transport. The European Commission's proposed alternative fuels infrastructure directive which sets out minimum requirements and common standards for electric vehicle recharging infrastructure and represents an important step further towards cleaner transport. Demand-side systems together with smart grid solution will provide an intelligent platform for a smooth integration of electric cars and plug-in cars into the electric grid.

5. Do you think that further policy measures are needed at EU level to foster energy efficiency in electrical equipment?

d) Yes
e) No
f) No opinion

EURELECTRIC has submitted its consultation response to the current review of the energy labelling and certain aspects of the Ecodesign directive. In general, we believe these measures set a workable framework for energy efficiency in electrical equipment, apart from our major concern regarding the application of primary energy factors, which continue to put electric equipment specifically in heating/cooling at a disadvantage.

In the future, demand-side programmes are expected to increase substantially. Where a carbon price signal encounters market failures demand-side systems will prove vital for making the most of renewable energy sources and will allow for further business model innovation. Enabling the market to develop around the benefits of smart electrical equipment also with the use of market based mechanisms is therefore essential.

6. Do you think that further policy measures are needed at EU level to foster energy efficiency in generation and distribution?

a) Yes
b) No
c) No opinion

The current energy and environmental regulatory frameworks (liberalisation of the electricity market, EU ETS and the promotion of renewable energy sources) are setting the right conditions for promoting energy efficiency in electricity generation, transmission, distribution and retail. Improving the efficiency of the electricity generation is part of the daily business of both fossil and renewable power producers and is in their best interest, not least in order to be competitive in the context of a strengthened CO2 price signal under a reformed ETS. This underlines the importance of an ambitious GHG reduction target and a well-functioning EU ETS to drive energy efficiency.

On the distribution side, which is a regulated activity, smart grids will provide an intelligent platform for a smooth integration of distributed generation and storage (including thermal storage), renewable energy sources and electric vehicles into the electricity grid. This would result in a reliable infrastructure for demand side participation by customers and a higher overall system efficiency. To enable the needed investments European DSOs need a proper remuneration and a balanced regulatory framework that provides both long-term incentives for efficient delivery, including incentives for innovation, and the necessary financial resources to allow DSOs to invest successively in research & development, demonstration and implementation of smart grids.

7. Do you think that further financial mechanisms and instruments are needed at EU level to mobilise energy efficiency investments?

a) Yes
b) No
c) No opinion

While stating our support for measures aimed at promoting an effective market for energy efficiency and energy services, we also recognise that the market will not stimulate the timely uptake of all cost-effective energy efficiency measures, particularly those with high energy saving potential but long payback times and high upfront capital investments. We deem it important that participation barriers for customers are not too high (e.g. in NL the requirements for participation in these funds are almost as strict as those for mortgages). On the other hand the parties offering these energy efficiency services should be able to make a business case (e.g. in Sweden the loans for energy efficiency investments have been relatively small. Because they were small, also the revenues for companies were small, so that many companies didn't even bother to offer these services).

Support for bringing new innovative technologies for energy efficiency along the entire value chain to the market is essential, especially in the deployment phase. Innovative market based financial instruments have to be developed, like risk sharing facilities, tax incentives etc. A comparative assessment on the programmes existing within and outside the EU followed by a set of non-binding guidance should be considered by the Commission.

Access to capital is one of the main barriers to energy efficiency investment. The financial sector should therefore be encouraged to offer financing for energy efficiency measures at affordable/attractive conditions. This could be done via voluntary agreements by banks and/or subsidizing loans for energy efficiency measures through credit lines, guarantees, etc. Such levers should be provided in a non-discriminatory manner to all market actors – this is currently not the case in all member states.

The building sector, as pointed out above, is a specific case in which bottom up legislation including for financing is necessary to correct market failures. These funding programs should however not be financed by additional levies but rather from tax reductions and

the usage of public funds. It must however be ensured that there is coordination between public funding sources to get the best leverage out of financing measures. Further, financing mechanisms should always work to complement the development of energy markets. EURLECTRIC also underlines its position that public funding in this field must be open to all market players.

Finally, energy efficiency financing schemes can be a good way to support consumers facing (energy) poverty as they do not have the financial resources upfront to make such investments. We think such schemes should be financed more progressively through general taxation to avoid adding to energy bills. Focus needs to move on creating a self-sufficient energy efficiency market that does not rely on support via obligation placed on energy companies. It has also been suggested that revenues from the EU ETS could potentially finance energy efficiency measures. EU funding programmes such as structural funds could also be used by Member States to improve energy efficiency in the housing sector. We see a great role for subsidiarity here.

8. Do you think that further measures are needed to build the capacity of actors in the energy efficiency sector?

a) Yes
b) No
c) No opinion

As stated above, through the roll-out of smart meters, making financing schemes available and affordable to trigger investments and awareness raising, much can be achieved. In general, if the regulatory framework is functioning, actor capacity will increase. Efficiency improvement incentives for end-users and property owners would be effective in creating more demand for energy efficiency services. However, capacity building cannot adopt a 'one size fits all' approach, member states need to identify the needs for the measures most effective for them.

As expressed in previous position papers, if energy prices reflected real costs, the value of energy efficiency measures would become more apparent and would be perceived more as economic value.

9. What are the most promising technology solutions that can help deliver energy savings in the 2020 and 2030 time horizon? How can their development and uptake be supported at EU level?

Notwithstanding EURELECTRIC's position on technology neutrality, on the demand side and especially in buildings several technologies will produce efficiency gains. In its innovation action plan EURELECTRIC has pointed to next generation heat pumps, insulation materials as well as smart meters in this context. Smart meters can substantially empower electricity customers to become active managers of their

consumption, allowing them to better understand their consumption and to react and adjust their consumption behaviour on the basis of this new information. They will also greatly contribute to a more efficient distribution grid management.

EURELECTRIC believes that governments should not pick technology winners, but that the right framework will enable markets to deliver on the most cost efficient solutions and stay in line with the development of the internal energy market. We advocate a technology neutral approach based on a sound innovation approach promoting technologies from immature to mature. The EURELECTRIC innovation Action plan (2012) provides in-depth analysis on this. Further, before further reforms for all EU-countries are introduced, experiences from existing reforms in member states need to be evaluated and experiences shared.

The development of many utilities toward a more a service-based model of energy supply will open essential potential around cost-effective energy efficiency technologies – along the entire value chain. Expanding the innovation policy toolset to include additional mechanisms to create a market setting for innovation, such as public procurement as well as giving a bigger role to public-private partnerships to capture private sector insight and enable better risk-sharing can be enablers for this.

10. Further comments

The current energy efficiency framework if fully implemented across all member states already provides a powerful tool to drive energy efficiency. We advocate that before adopting new measures, the impact of current policies should be analysed and evaluated. This also serves the investment and planning security of businesses and consumers, fostering the willingness to invest in new technologies. At the same time the diversity of European energy and efficiency markets must be taken into account. The Member States need maximum flexibility to achieve their efficiency targets in the future development of the framework.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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