Department
of Energy &
Climate Change

UK response to European Commission consultation

UK response to the European Commission's public consultation on progress towards the 2020 energy efficiency objective and a 2030 energy efficiency policy framework

May 2014

Introduction

The UK is absolutely committed to energy efficiency. It belongs at the heart of energy and climate policy and the UK Government supports ambitious action on this issue.

In November 2012 the UK Government published its domestic Energy Efficiency Strategy and an update on progress towards implementing this was published in December 2013. The UK's Energy Efficiency Strategy sets out the UK Government's commitment to realising the energy efficiency opportunity in the UK and removing the barriers to take up of energy efficiency measures.

The benefits of realising the energy efficiency opportunity are significant. Enhanced energy efficiency can:

- Promote economic growth, improve productivity and support jobs in the economy;
- Save households and businesses money on their energy bills at a time of rising prices;
- Support activity to revitalise infrastructure and contribute to a more secure and sustainable energy system, making the economies of Europe more resilient to external price shocks and less reliant on energy imports; and
- Support action to decarbonise cost-effectively.

In the UK, energy consumption has fallen in eight of the last nine years: primary energy consumption in 2012 was at the same level as in 1980, despite a doubling in GDP in real terms over the period; while the UK economy is now one of the least energy intensive economies in the developed world (since 2006 the UK has had the least energy intensive economy in the G8).

Meeting the 2020 EU 20% energy saving target and implementing the Energy Efficiency Directive

In the UK the binding 2020 greenhouse gas target has been successful in driving energy savings in line with the EU's target to reduce primary energy consumption by 20% by 2020 (against 2007 Business As Usual projections).

Article 3 of the EU Energy Efficiency Directive (the 'Directive') introduced a new non-binding target for Member States and on 30 April 2013 the UK notified the European Commission (the 'Commission') of its target, which was set at the level of 129.2 million tonnes of oil equivalent (MTOE) for final energy consumption on a net calorific value basis.[1] This represents an 18% reduction in final energy consumption relative to the 2007 business as usual projection (equivalent to a 20% reduction in primary energy consumption and a 26% reduction in energy intensity). The 2013 *UK Energy and Emissions Projections* suggest that the UK is currently on track to overachieve against this target (with final energy consumption in 2020 projected to be around 20% below the baseline, equivalent to a 21% reduction in primary energy consumption).[2]

---

[1] This was the projected level of final energy consumption taken from the 2012 UK *Energy and Emission Projections*. It is equivalent to 1,586 TWh on the gross calorific value based used in UK National Statistics and projections.

[2] DECC, *Energy & Emissions Projections* (September 2013).

Article 8(4-6) of the Directive introduces a new requirement for large enterprises to conduct regular energy efficiency audits. The UK has consulted on the introduction of a new Energy Savings Opportunity Scheme (ESOS), to give effect to this requirement. The consultation indicated that ESOS could help address barriers around access to information outlined in our Energy Efficiency Strategy. Our consultation stage Impact Assessment identified that the scheme could lead to around 3TWh per year in energy savings.

The introduction of the Directive represented an important step forward by the EU and its implementation will have a significant role to play in driving action towards achieving the EU's 2020 energy saving target. However, there remains significant potential for household, business and public sector energy users across the EU to reduce their energy use.

It is important that Member States now be able to focus on fully transposing the Directive ahead of the 5 June 2014 transposition deadline. The Commission should work with Member States to add urgency to previously agreed ambitions on reducing primary energy consumption by 20% by 2020, including full implementation of the Energy Efficiency Directive and other pre-existing requirements that support energy saving. For example, the roll out of smart meters across the EU represents a significant energy saving opportunity. In Great Britain, while some homes and business are already having smart meters installed, roll out to most consumers will begin from late 2015. Between now and the end of 2020, energy suppliers will replace over 53 million gas and electricity meters with smart meters, empowering consumers by enabling them to see in near real time how much energy they are using and what it costs.

The UK Government looks forward to the Commission's review of the Directive's implementation and progress towards the 2020 target later this year. The review must be transparent about the EU's performance against the target. The UK Government supports the Commission's decision to delay bringing forward energy efficiency proposals for the 2030 package until after the review's completion. Any future decisions made on the role of energy efficiency in the 2030 climate and energy framework must be informed by the review's findings. Setting out proposals before the review has been concluded risks pre-judging its outcome.

Energy efficiency to 2030

It is clear that energy efficiency belongs at the heart of a low-carbon economy. Long term investment in energy efficiency technologies can drive economic growth, productivity and innovation.

However, given the uncertainties about the long-term cost-effective pathway to the 2030 carbon target, and the potential for new technologies to be developed in the coming years, a binding energy efficiency target, or indeed a country level renewable target, would not be acceptable to the UK as it could force EU Member States to implement measures that are not cost-effective and have negative consequences for the carbon price. Member States need greater flexibility than the 2020 provided in order to ensure they can deliver emission reductions in the most cost-effective way; multiple policy instruments risk preventing the carbon price from driving cost-effective mitigation, decreasing Member States' flexibility and increasing the cost of meeting targets when they are not correctly aligned.

As set out in the IEA World Energy Outlook 2012, increased energy efficiency is most likely to be released through tackling the wide range of barriers that prevent take-up. The EU needs a 2030 framework that helps address the barriers to energy efficiency take up and which attracts private finance in projects ranging from domestic building renovation to large scale non-domestic projects in the industrial and public sectors. The framework also needs to unlock the

potential of energy efficiency to enhance productivity and cut waste, and ensure that EU companies can continue to compete in an increasingly competitive global market.

The Commission has already put in place the right building blocks for energy efficiency. Existing policy measures like the Ecodesign and Energy Labelling directives, for example, are delivering cost-effective energy savings and emission reductions. Similarly, vehicle performance standards for new passenger cars and light commercial vehicles have driven improvements in fuel efficiency.

The Commission's forthcoming Energy Efficiency Strategy must build on this, exploring the opportunities to remove the barriers to take-up of energy efficiency measures in the EU, when these concern cross-border issues. Key barriers, for example, are: access to trusted information; the tendency to undervalue energy efficiency; and access to finance. Ultimately, individual Member States will remain best placed to judge the specific measures appropriate for their economies. The UK Government has already undertaken a review to the barriers to energy efficiency take-up in the UK and our Energy Efficiency Strategy details the action being taken to address these.

There is more for the Commission to do to raise awareness of the links between import dependency and energy efficiency, particularly ahead of publishing its Energy Security Strategy – energy efficiency must form a key strand of this strategy.

Ensuring a cost-effective approach

The UK Government believes that an ambitious binding greenhouse gas target will support the EU's objective to decarbonise cost-effectively and improve security of supply.

Analysis commissioned by the UK Government suggests that a domestic greenhouse gas target of 40% by 2030 would cost the EU 0.2% of GDP in 2030 compared to a case of continuing current EU policy;[3] and that a cost-effective approach to meeting this target would drive energy savings of around 20% over the same period. The analysis suggests a supplementary target of 30% for energy efficiency would increase the cost of meeting the 2030 package by a further 0.4 percentage points of GDP in 2030, or €70bn. This level of cost in 2030 exceeds the cost of a 50% domestic GHG reduction target suggested by the analysis (a further 0.4 percentage points of GDP in 2030, or €64bn, above the 40% GHG reduction target).

Role of Product Standards

Setting energy performance standards, in particular for goods for which there is a free market across the EU, is a valuable way of providing investors certainty while allowing a technology neutral approach to meeting the standard. Significantly, product standards can also have an impact on wider global manufacturing markets (e.g. US and emerging market manufacturers) given interest from overseas in servicing the EU market. This is especially the case where EU product standards are more stringent, as manufacturers often seek to meet the most stringent standard so that the same product can be sold around the world.

The UK Government considers that existing product labelling and standards have had significant success to-date. Improvements in the sustainability, in particular the energy efficiency of domestic, commercial and industrial energy-using products has proven to be one of the most cost-effective means of reducing energy demand and greenhouse gas emissions, as

[3] Enerdata, February 2014. 'Costs and Benefits to EU Member States of 2030 Climate and Energy Targets' https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285505/costs_benefits_eu_states_2030_climate_and_energy_targets_enerdata_report.pdf

well as reducing the cost of energy bills. This approach also creates a level playing field for manufacturers and importers operating in the EU market. The existing Ecodesign Directive has proven successful in removing the least efficient products from the market, where cost effective; while the Energy Labelling Directive is providing consumers with the information they need to make informed decisions.

Looking towards 2030, the UK Government calls on the Commission to remove the bureaucracy attached to the Ecodesign Directive. The Commission is due to set out its process for reviewing the products already caught by the Ecodesign Directive. In this context, the Commission must ensure that the process is streamlined and proportionate so as to realise the significant energy saving potential that currently remains untapped. The process of introducing new products within the regulations must also be streamlined – the time that elapses between proposing new products for inclusion and the point at which the regulation captures those products is currently too long. Finally, there is scope for the Commission to play a facilitating role between Member States' market surveillance authorities in an effort to reduce bureaucracy and bolster compliance (the UK is already working to facilitate this through its Ecopliant project, which involves nine other Member States).

The Commission has already begun the process of reviewing the Energy Labelling Directive and the UK Government looks forward to discussing this further with the Commission.

Finance for energy efficiency

There is more that the Commission can do to support financing for energy efficiency, in particular connecting energy efficiency measures and demand for these with available finance. Funding for energy efficiency is already available through existing EU Structural and Cohesion funds but take-up remains low. The Commission should take a more proactive role in:

- Ensuring that the rules and procedures around bidding processes are applied consistently and that they are clear and readily available to applicants;
- Sharing practice and raising awareness of the availability of funding streams; and
- Ensuring that technical assistance and expertise is available to applicants to help them progress their bid successfully.

The Commission should also work with Member States to explore the opportunities and benefits of preferential interest rates for energy efficiency. In the UK there is a strong body of existing financing mechanisms for energy efficiency, including the UK Green Investment Bank which has already set aside £150 million in funding for non-domestic energy efficiency projects. In the public sector, the UK operates a scheme called Salix. This is a public sector energy efficiency loan scheme, which will invest £30 million a year over the next three years in energy efficiency projects throughout the UK public sector.

Transport standards

EU-wide emissions performance standards for new passenger cars and light commercial vehicles have been successful in driving down emissions. For example, regulations in place since 2009 requiring the automotive industry to produce more efficient vehicles have ensured that a car sold today uses 11% less fuel than it would without regulation.

Binding standards requiring efficiency improvements have also encouraged original research, the development of innovative technologies, and helped to reduce emissions across all vehicle types, building the market for low carbon transport. The UK supports the Commission's plan to

work with stakeholders to establish views on a post-2020 framework for transport, and looks forward to engaging with the Commission on this issue. In particular, the Commission should work with industry and Member States to bring forward proposals for extending EU-wide emissions performance standards to cover heavy goods vehicles.

As the EU represents such an important market for many vehicle manufacturers, we expect European standards to lead to improvements in vehicle energy efficiency in other regions.

Building renovation

The UK has a substantial history of having progressed energy efficiency in building retrofit. We have often led the way in Europe on policies that drive building energy efficiency improvements – for example Part L of the Building Regulations in 1985 and the first supplier obligation scheme in 1994. By July 2013, over 10 million homes in the UK had received cavity wall insulation. New building renovation policies, like the Green Deal and Energy Company Obligation are aimed at realising the outstanding cost-effective potential.

Enhancing the energy efficiency of domestic and non-domestic properties across the EU represents a significant opportunity in terms of reducing the EU's energy dependency and mitigating the impact of sudden disruptions to supply. The Commission's Energy Efficiency Strategy should assess the outstanding cost effective building renovation potential in the EU and what impact realising this would have in terms of reducing the EU's reliance on energy imports.

In the UK, we have taken action through the 2011 Energy Act to establish provisions for regulation in the domestic and non-domestic private rented sectors to drive the take-up of energy efficiency improvements, where traditionally barriers to investment have existed due to the split incentives between landlord and tenant. The use of these regulation-making powers is conditional on there being no net or up-front costs to landlords. The Government intends to use these powers for England and Wales so that:

- Domestic private landlords will not be able to unreasonably refuse requests for consent to energy efficiency improvements from their tenants, where financial support is available, such as Green Deal finance or Energy Company Obligation (ECO), with the first tenants' energy efficiency improvements regulations coming into force by 1 April 2016.

- There will be a minimum energy efficiency standard for privately rented housing and non-domestic properties, with the first domestic and non-domestic energy efficiency regulations coming into force by 1 April 2018. Again, to ensure that there are no net or upfront costs to landlords, a property below the minimum standard may be let where all improvements possible within the Green Deal's Golden Rule are undertaken, taking into account any funding support available such as ECO.

Conclusion

Energy efficiency must have a key role to play within the EU's 2030 climate and energy package. However, it is important that the lessons learned from the 2020 climate and energy package are applied to the 2030 package.

The EU needs a 2030 package which supports and incentivises Member States to take up the outstanding cost-effective energy efficiency potential – and to do so through well designed cost-effective policy instruments. Doing so will stimulate economic growth; help consumers save

money; enhance the EU's energy security; and support attempts to drive cost-effective emissions reductions.

The overall package should allow Member States to decarbonise cost-effectively – an ambitious binding greenhouse target will drive such action, including in terms of energy efficiency. Supplementary binding targets focused on energy efficiency are unnecessary and risk compromising the cost-effective mitigation pathway.