

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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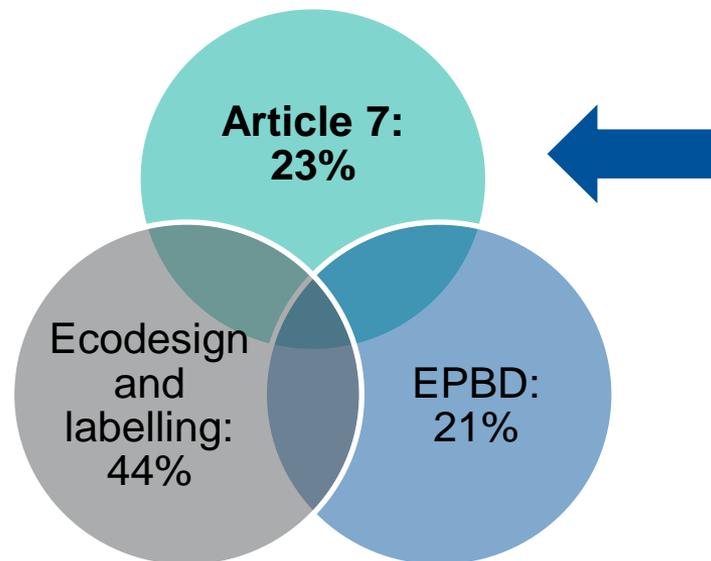
Energy Efficiency Coordination Group
Energy Community Secretariat
Vienna
6 March 2019



European Bank
for Reconstruction and Development

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):



Impact likely to be even more significant for 2030 targets

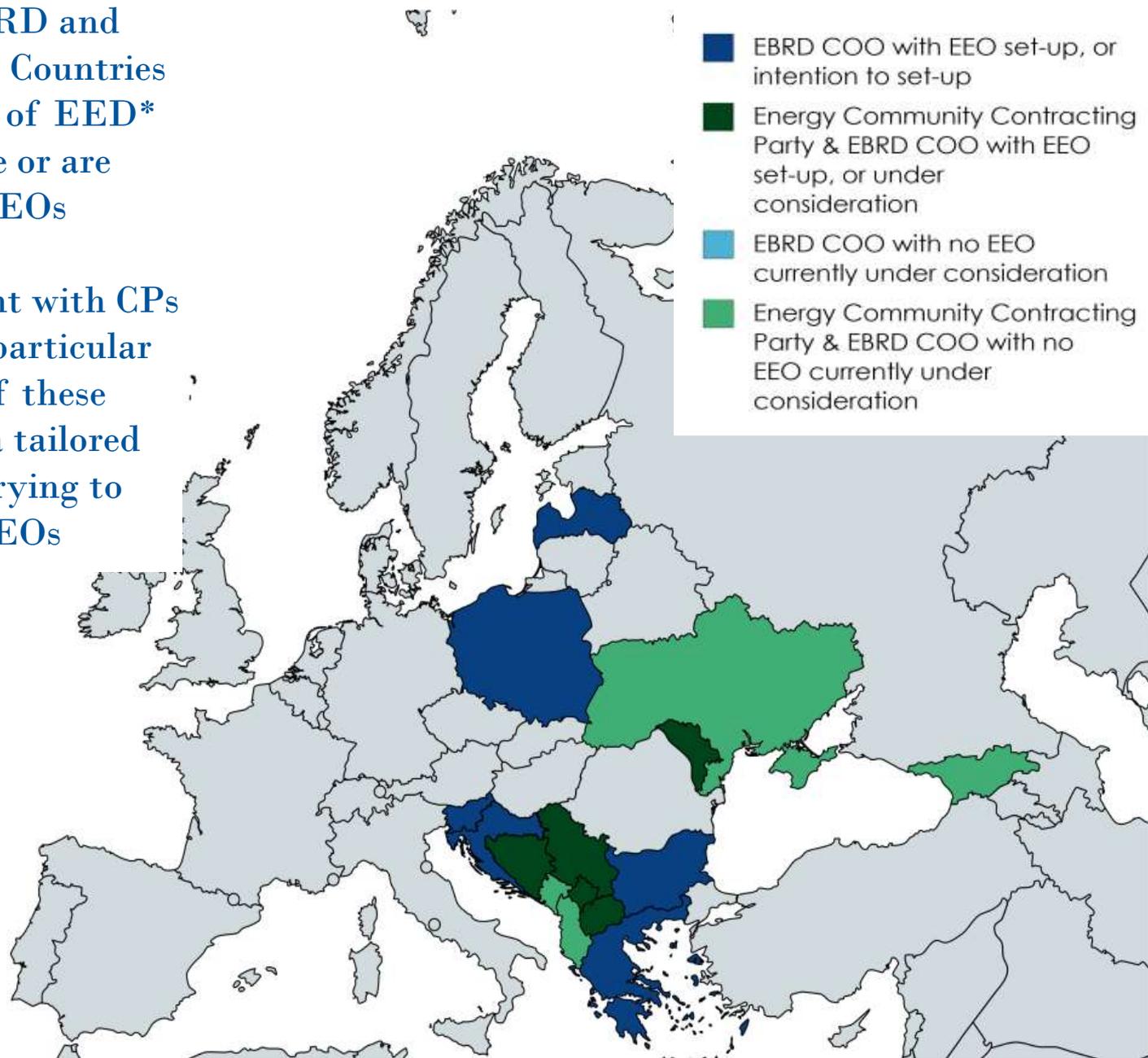
**Article 7 Notification for Energy Community Contracting Parties was due 15 March 2017 →
Remains outstanding for all CPs!**

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

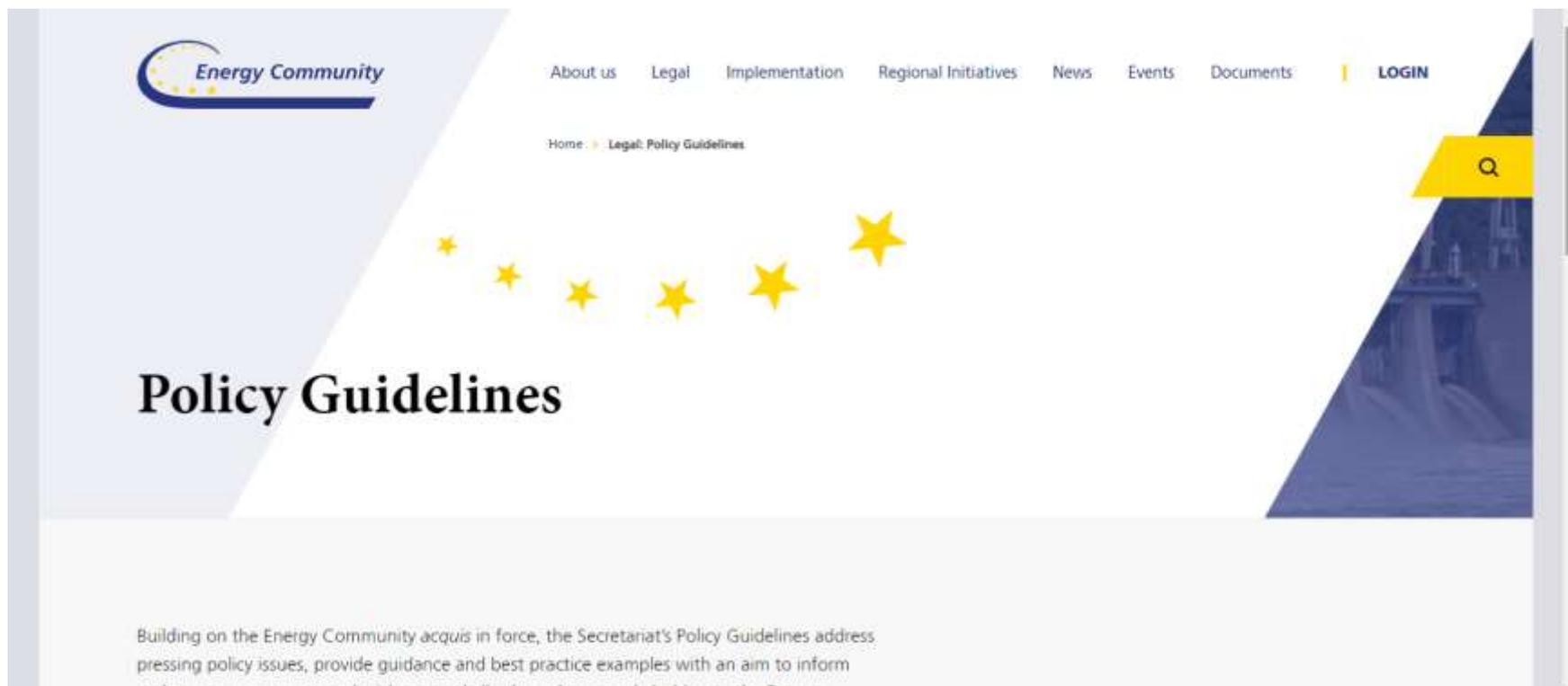
- Energy Efficiency Obligation schemes
- Key Alternative Measures

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



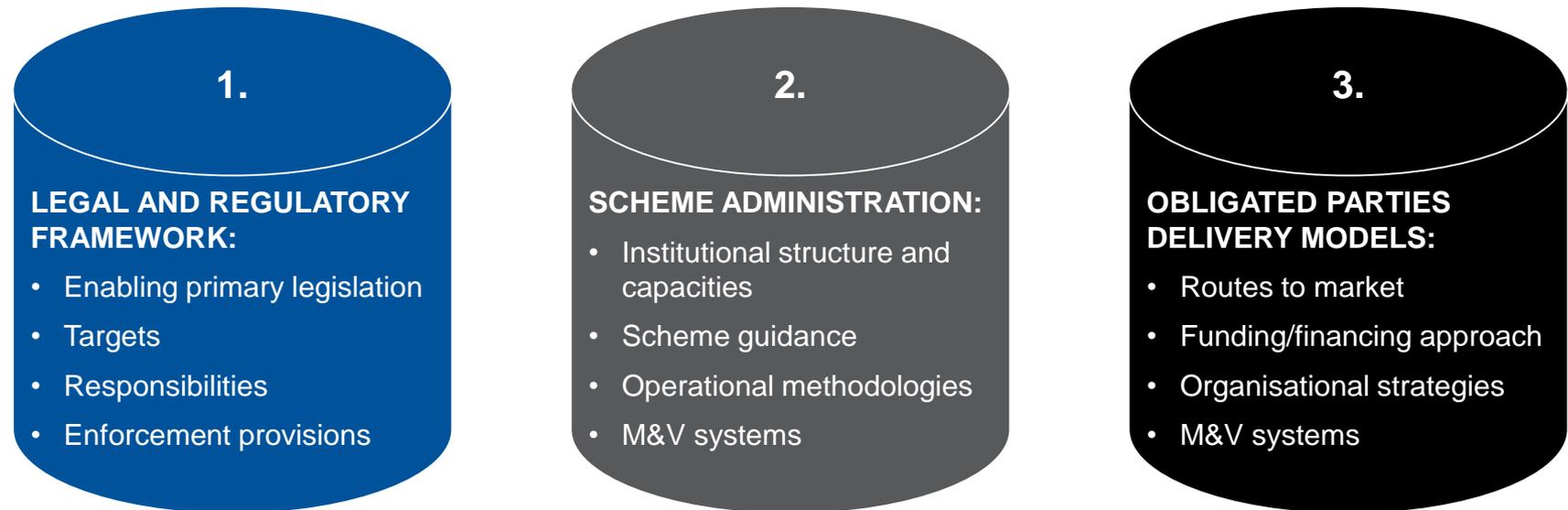
New Policy Guidelines prepared jointly by EBRD and Energy Community Secretariat on Article 7: EEOs



- <https://www.energy-community.org/legal/policy-guidelines.html>

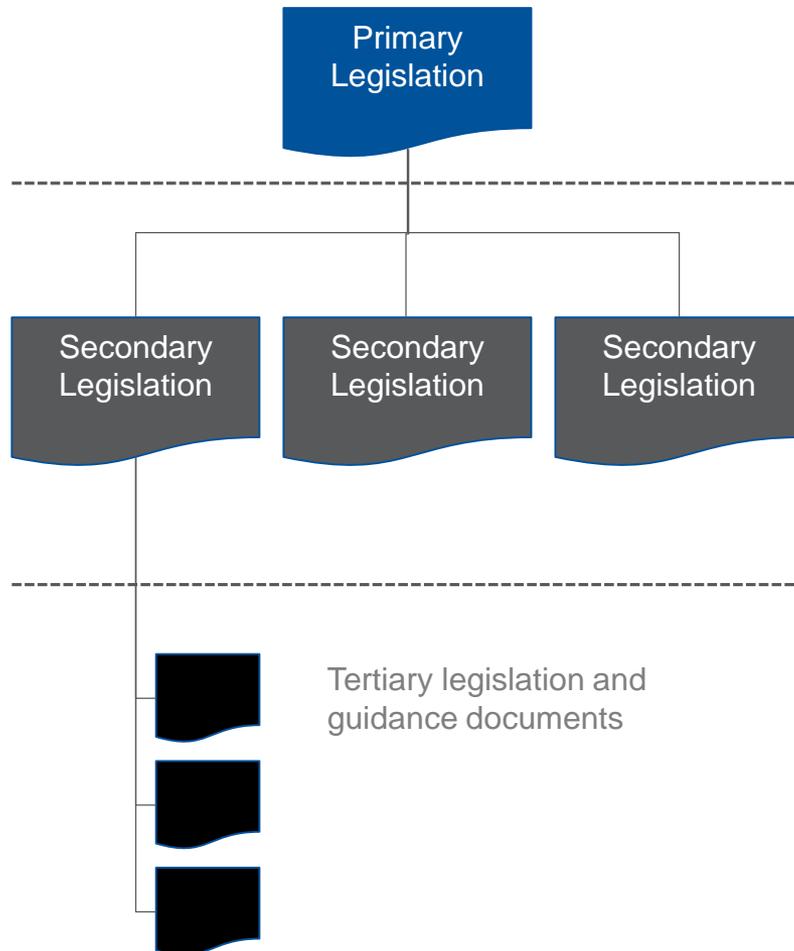
Policy Guidelines identify and discuss best practices for implementation of EEOs by CPs taking into account local factors

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



- A successful EEO scheme needs all three pillars to be in place

Component 1: Legal and regulatory framework



- Defines obligation
- Usually Energy Law or EE Law
- Empowers responsible agencies

- “Falls out” of primary legislation
- Covers operational processes (eg development of calculation methodologies)

- Deemed savings and engineering tools
- M&V guidance documentation

Component 1: Legal and regulatory framework

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

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

CHALLENGE: COST RECOVERY



Context

Market liberalisation is ongoing

Many retail tariffs remain regulated

Dominant incumbents with little competition

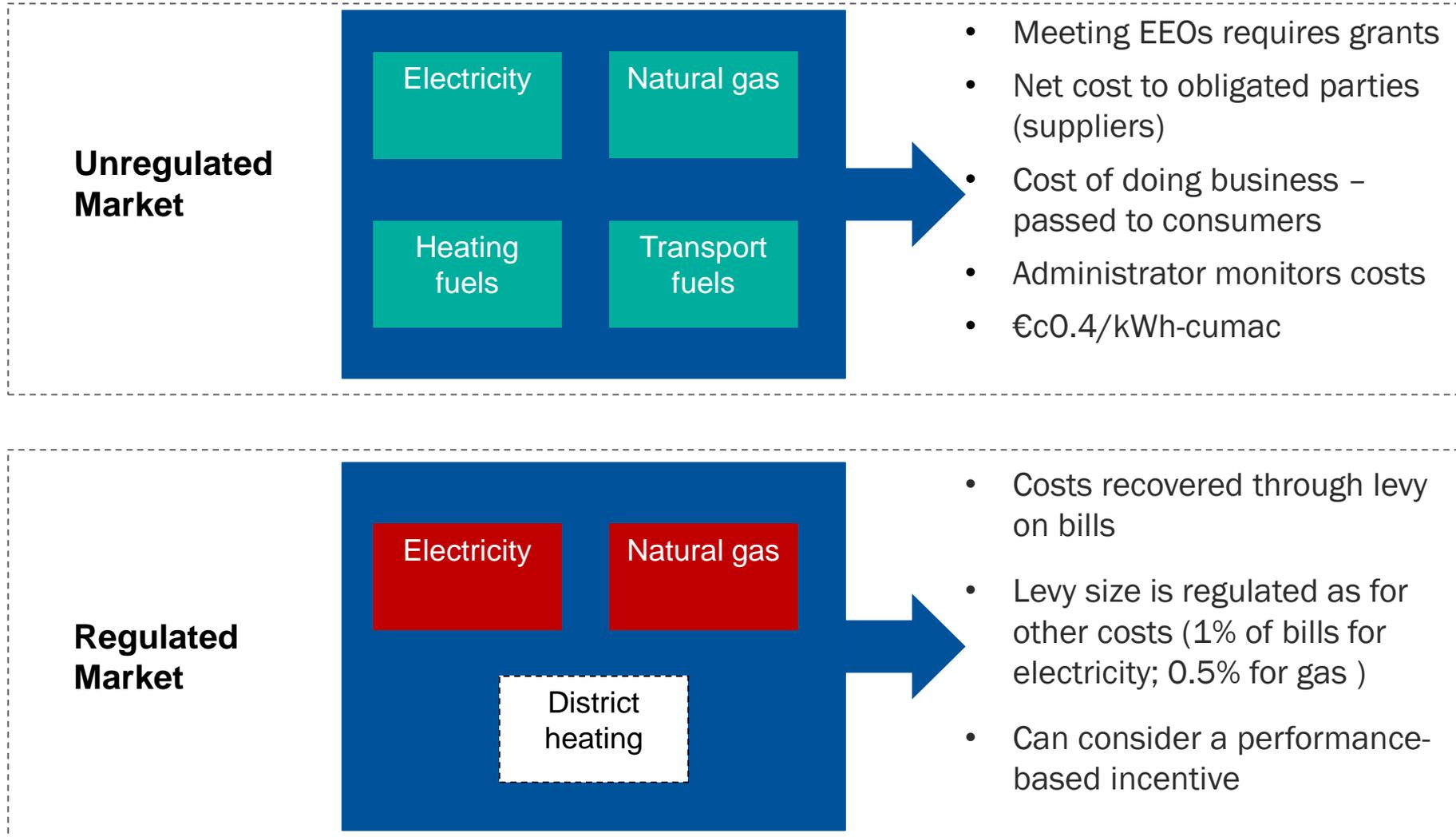
Challenges

Costs need introducing to Allowed Revenue framework

OP concern over tight regulated margins

Costs to consumer become more visible than benefits

Component 1: Example best practice on cost recovery - France





INSTITUTIONAL STRUCTURE

- Agency, regulator or ministry?
- Degree of separation from policy setting ideal
- Must have adequate capacity → but not overly onerous



ADMINISTRATION TASKS

- Developing and maintaining supporting documentation and tools
- Collecting and accrediting savings
- Undertaking auditing



REPORTING AND COMMUNICATION

- Reporting to government (typically annually)
- Liaison with OPs

Component 2: Scheme administration

Component	Key issues
Administration guidance to OPs	Common language explanation of legislation
Technical guidance to OPs	Stipulates minimum standards; M&V processes; reporting requirements
Deemed energy savings	Cover common high volume measures; independent verification of values (update)
Energy savings calculation tools	Spreadsheets to support scaled savings
Appropriate IT systems	Specification and procurement of software; possibly integrated with wider EE activities
Pro forma templates	To ease transaction costs for stakeholders
Cost reporting	To monitor scheme effectiveness
Trade facilitation	To enable inter-OP trades; may consider open trading platform

Key issues for EBRD COOs:

- Presence and capacity of an arms-length agency:
 - Have been an important feature of many successful EU EEO schemes
 - No such agency exists in many EC CPs
 - Ministry or regulator as alternatives often lack capacity – slows decision making
- Lack of supporting documentation: deemed savings lists, tools, guidance documents and pro formas all help OPs negotiate their obligations under EEO schemes

CHALLENGE: IT SYSTEMS



Context

Severe issues with monitoring savings achieved in wider NEEAPs

Lack of capacity to operate systems designed

Monitoring NOT verification

Challenges

Unable to report accurately on NEEAP progress

Rolling out to people who need to use the IT system

Lack of a back-up verification process to validate entries

Component 2: Example best practice on IT system - Croatia



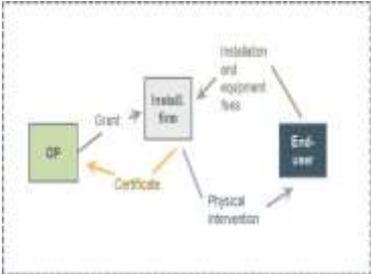
- System for Measuring and Verifying energy savings (**SMiV**)
- Centralised **bottom-up calculation and monitoring** of EE policy measures
- **Legal obligation** for public bodies, EE Fund, ESCOs, OPs to enter data

- **Training** is a key challenge
- Development supported by **technical partner** (EIHP) via MultEE project
- **Roundtable events** used to update deemed savings values
- **Legal obligation** for public bodies, EE Fund, ESCOs, OPs to enter data

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Opis plana	<input type="text"/>
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Vrijedi od	<input type="text" value="3.12.2015"/>
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Ciljevi (po sektorima)	
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Component 3: OP delivery mechanisms / business models



BUSINESS MODEL OPTIONS

- Legislation may drive eligible options
- But flexibility should remain and OPs encouraged to seek own solutions
- Open trading requires market maturity



FINANCING MECHANISMS

- Grants most common
- Loan-based approaches are eligible but rarely used to date



COST AND INNOVATION

- EEOs by design focus on low cost measures
- Encouraging innovation may therefore require rule tweaks

Component 3: OP delivery mechanisms / business models

Component	Key issues
Engagement	Early engagement warms OPs to scheme
Understanding scheme operation	Involvement of OPs in working groups helps shape scheme
Developing administrative capacity within OPs	Must have capacity for delivery and M&V tasks → threshold consideration
Internal Action Plan for delivery	May be formal or informal; outlines expected route by OP to achieving target (fast track?)
Choice of delivery mechanism	Financial or technical support? What form of financial support? Use of ESCOs
Financial products for OPs	Cash flow of OPs and access to capital
Product innovation	Inherent trade-off between targeting low cost measures and innovation

Key issues for EBRD COOs:

- **Lack of capacity and experience:**
 - few regional utilities have experience in running EE business lines
 - Access to upfront capital may limit options for delivery mechanisms
- **Need for sustained pre-implementation planning:** Recent successful EEOs have benefitted from rigorous cooperation with OPs prior to scheme “go-live”
- **Scheme costs:** utilities are frequently sceptical of impact of costs. Must be clear on how costs can be recovered and minimise market distortion
- **Monopoly providers:** Remain in place for much of region. This can dilute the competitive benefits of an EEO and thus demand closer regulation

CHALLENGE: DELIVERY MECHANISM



Context

Lack of experience with EE
business lines

Undeveloped ESCO
market

Numerous small players –
eg for oil products

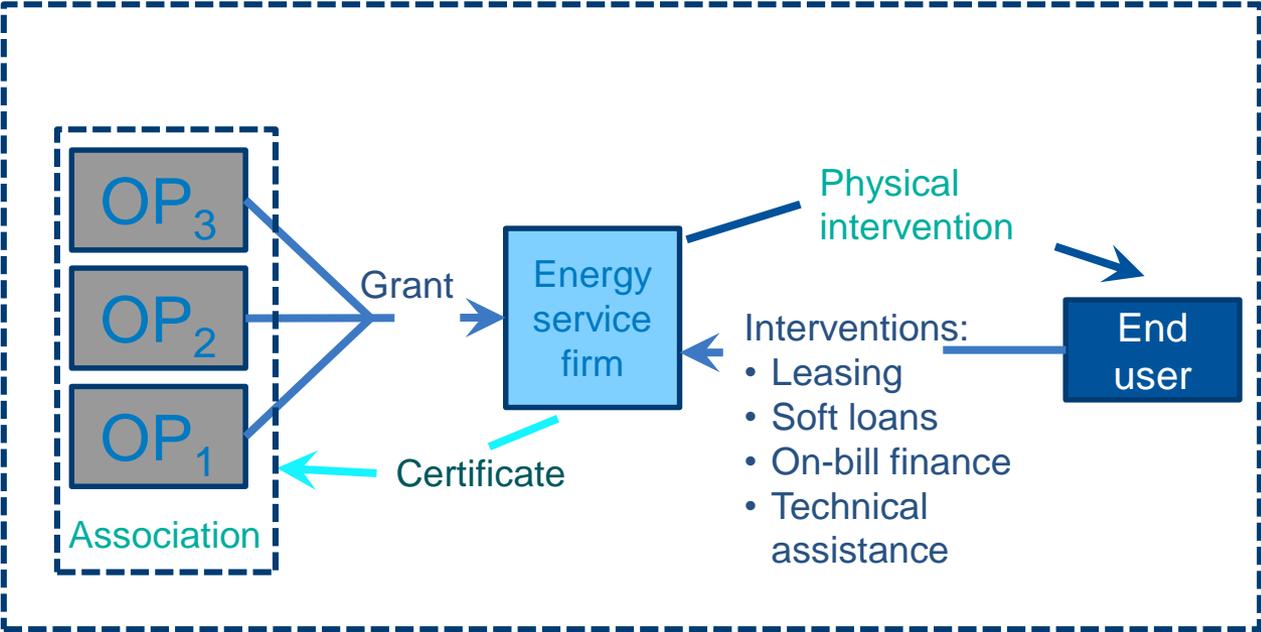
Challenges

In-house delivery may be
onerous

Will there be sufficient
liquidity?

Fixed costs - achieving fair
treatment

Component 3: Example best practice on delivery mechanisms - Ireland



Irish Petroleum Industry Association

Obligated parties form an association and outsource implementation to a specialized firm:

- Interventions can be of any form by the Energy Service Firm
- Still based on grant payments by OPs/Association
- Good for smaller players

Recommendations for getting started

- Be **realistic on scope and timetable**
- Consider **related alternatives** (perhaps for transitional period)
- **Early engagement of Ministry of Finance and regulator** are essential
- Early engagement of **Obligated Parties** is essential
- Pay specific attention to **M&V** and supporting documentation
- **Regular reviews** are necessary
- Backup the obligation with effective, proportionate and dissuasive **penalties**

= A RECIPE FOR SUCCESS!

Thank you



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