

**Opinion of the European Economic and Social Committee on the 'Proposal for a Directive of the European Parliament and of the Council on energy end-use efficiency and energy services'**

(COM(2003) 739 *final* — 2003/0300 (COD))

(2005/C 120/21)

On 23 January 2004 the Council decided to consult the European Economic and Social Committee, under Articles 175(1) of the Treaty establishing the European Community, on the abovementioned proposal.

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 5 October 2004. The rapporteur was Mrs Sirkeinen.

At its 412<sup>th</sup> plenary session of 27 and 28 October 2004 (meeting of 28 October 2004), the European Economic and Social Committee adopted the following opinion by 117 votes to 10 with 14 abstentions.

## 1. Background

1.1 EU energy policy has during recent years followed three main lines:

- creating effective open markets for electricity and gas,
- ensuring security of energy supply, and
- reaching stringent environmental targets and in particular combating climate change.

Key legislation adopted in these areas includes the revised electricity and gas-market Directives, which open markets for non-household users in mid-2004 and all consumers in 2007. On security of electricity supply a Green Paper was published in 2001, highlighting demand-side management as one key action for both security of supply and combating climate change.

1.2 A reliable energy supply at reasonable prices is an important precondition for economic growth and welfare of the citizens of Europe. Consequently, the EESC has in its opinions supported the Commission's objectives and approach.

1.3 The proposal for a Directive on end-use efficiency and energy services was presented by the Commission as a part of a package of proposals dealing with energy infrastructure and security of supply. The Commission points out that in this context the question of supply-demand balance cannot be neglected. An underlying cause of the increased stress on networks is demand growth, which can partly be counteracted by demand-side management.

1.4 Efficiency of energy end-use, or energy conservation, has for long been recognized as a powerful element of the energy market. Less use of energy saves money and contributes directly to both security of supply and often to reducing greenhouse gases by decreasing the need for generation and for investments in new production, transmission and distribution.

1.5 There is much potential for better energy efficiency. The Communication refers to studies that on average show that final energy consumption in the EU could be reduced by at least 20 % without reducing comfort and at no extra cost. The efficiency potential for electricity use is generally lower than this total figure, and higher for other forms of energy.

1.6 In a Communication accompanying the energy package the Commission states that future growth in electricity demand will be taken care of by demand-side management. Some new investment is, however, seen to be needed simply to renew plants that have reached the end of their life. Much of this the Commission expects to take the form of renewables and distributed small scale combined heat and power generation.

1.6.1 The Committee cannot agree with this description of future trends and needs in the electricity sector. In a Communication on security of supply, much clearer and realistic information on future trends and potentials is to be expected. In particular when much better quantified information and scenarios are available, including material produced by the Commission itself. Nobody is served by avoiding clear and realistic — be it for many unpopular — baseline information.

1.6.2 A very rough calculation can provide an idea of the magnitude of the problem and options to solve it. Electricity demand grows presently at a rate of 1-2 % per annum in the EU. The EU target for increasing electricity generation from renewable energy sources means a yearly increase of less than 1 %. The target proposed for energy efficiency would cut yearly growth by 1 %. Renewables and efficiency could thus compensate the growth in demand, and in addition possibly substitute existing capacity by much less than 1 % per annum. Power plants run for 30-50 years, which means theoretically that substitution needs to take place at a yearly average rate of 3 %. The International Energy Agency (IEA) notes a need for new power plants in the EU of over 200 000 MW over the next 20 years.

## 2. The Commission proposal

2.1 The goal of the Commission proposal is to ensure that every year 1 % more of the energy previously used in each Member State is saved through increased energy efficiency. The 1 % of energy to be saved is calculated on the average yearly energy use of the past five years in the Member State. This will lead to around 6 % energy savings in the year 2012. Member States would be obliged to report and verify, in accordance with the Directive's provisions that this amount of energy has been saved each year up to 2012. Energy use in the Member State can still grow, but at a lower rate than without the measures.

2.2 The draft Directive boosts energy-efficiency measures and aims at promoting the market for energy services such as lighting, heating, hot water, ventilation, etc. Member States would be obliged to respect two energy savings targets and to ensure that suppliers of energy offer energy services for the period 2006 to 2012.

2.3 The general energy end-use savings target of 1 % per year means 1 % of the average amount of energy distributed or sold to final customers the previous five years. These savings will have to be registered from the following sectors: households, agriculture, commercial and public sectors, transport and the industry. Air and maritime transport are excluded for measurement reasons. Excluded also are energy-intensive industries, which are already covered by the emissions trading Directive and the IPPC Directive. All types of energy will be taken into account: from electricity and natural gas to district heating and cooling, heating fuel, coal and lignite, forestry and agricultural energy products and transport fuels.

2.4 A sectoral target is set for Member State public sectors, which need to save at least 1.5 % energy a year, notably thanks to energy-efficient public procurement. These savings would also contribute to the general yearly savings target of 1 %.

2.5 A supply-side obligation is set for the sale of energy services. Energy distributors and/or retail supply companies would have to integrate energy services into their distribution and sales of energy until a 5 % share of their customers has been covered. Alternatively, energy audits would be offered.

2.6 A method of calculation allows credit for measures taken earlier. Member States may measure and verify the continued impact of already existing energy services and efficiency measures which were not introduced before 1991. Energy taxes and energy saving information campaigns can be taken into account provided their impacts are also measurable and verifiable.

2.7 Member States will decide which sectors should be addressed and how much each sector should contribute to reaching the national target, although all eligible customers should be offered some form of energy service or energy-efficiency programme or measures.

2.8 Savings will be calculated as the sum of the measured or estimated reductions in final energy consumption attributable to energy services, energy-efficiency programmes and other eligible measures. Member States will report regularly on their success in meeting targets. Examples of eligible energy services and energy-efficiency guidelines for measuring and verifying energy savings are set forth in the proposal.

## 3. General comments

3.1 The EESC has on several previous occasions stressed the importance of energy saving and enhanced end-use energy efficiency in order to meet the goal of sustainable development and, in particular, to combat climate change. The Commission's initiative to focus serious attention on this issue is welcomed. The EESC supports strongly the objective of energy efficiency and some of the proposals in the draft Directive, but also has proposals for changes.

3.2 In many Member States action has been taken in this area, which today features a large variety of policy measures, practical experiences and results. Perhaps the most widespread form of activity in this area, also with some sectoral EU-wide examples, is voluntary action, in unorganised forms or based on agreements.

3.3 At EU level there are requirements for labelling household and other appliances and a Directive on energy use in buildings. Other measures, like the Directive on design of energy-using products, are in the pipeline. Many other parts of EU policies support also end-use energy efficiency, like the IPPC <sup>(1)</sup> and energy-tax directives. Unfortunately these policies, to a large extent, include measures that considerably increase the cost of energy. This can be seen as supportive of saving energy, but damages caused by higher costs to households and the competitiveness of industries can outweigh the positive effects.

3.4 Relevant actions to enhance energy efficiency vary widely because of different local circumstances and actions so far. The effects of these actions on the internal market seem limited. Against this background it is important, in line with the subsidiarity principle, that additional actions at EU level give genuine added value.

3.5 In its proposal the Commission seems to try to take account of the differences and varieties of actions. But given all existing national and EU regulations and, in particular, all voluntary activities, the proposal needs, in the view of the EESC, some adjustments in order to add optimal value to existing measures. Also the coherence with other, related requirements, such as those laid down in the building directive, should be clarified.

3.6 The potential of better energy efficiency has been subject to many studies. The EESC broadly agrees with the Commission on the figures it presents. The potential is large, but some of it has to be viewed critically by taking better account of economic realities. The profitability of efficiency investments has been calculated against a pay-back period of the lifespan of the investment, which is often not viable in practical life. For example, if the extra cost of a more efficient heating system in a family house has a pay-back period of the lifespan of the appliance, that is tens of years, the owner would hardly see this as a profitable investment. Similarly in a small business with a limited investment budget, the manager would not put the replacement of a machine which is still operational by one using less energy higher on his list of priorities than a project that increases total output and turnover.

3.7 Against this background the target set in the Directive of 1 % yearly efficiency gains is ambitious, but not unrealistic overall. The target of 1,5 % in the public sector, which relates mainly to energy use in buildings, can in some Member States be very difficult and expensive to reach in the proposed time-frame.

3.8 The main argument in support of setting a mandatory target is that targets are strong motivators. But there are many arguments against a binding target.

3.8.1 Differences in past and present actions are such that a single target would imply different costs to energy users in different Member States. Individual targets for Member States are not feasible because of lack of comparable information as a calculation base.

3.8.2 Another argument is that a target would be seen as a 'stick' instead of a carrot and this would give the wrong message. The potentials and the benefits of enhancing better energy efficiency should be communicated and enhanced in a positive, stimulating fashion.

3.8.3 The information base on present energy use, energy efficiency situation and effects of present measures is poor in many Member States. The calculation methods for savings presented in the draft Directive are not well defined. Flexibility on this point can be welcomed, but results are comparable and reliable vis-à-vis the target only when both the baseline information and the calculation methods are reliable and comparable.

3.8.4 The EESC is also concerned that sub-optimisation, in this case of energy efficiency by setting binding targets, does not serve well the optimisation in relation to overall objectives, such as total efficiency of the economy or decreasing greenhouse gas emissions in a cost effective way.

3.9 For the above mentioned reasons the EESC does not support the setting of a binding target for the Member States. A minimum requirement for setting a target is that fully satisfactory and feasible calculation methods are defined.

3.9.1 Instead of optimal national binding targets the EESC proposes that Member States should be obliged to establish or update existing programmes for energy efficiency, including monitoring. The targets of 1 % and 1,5 % for the public sector should be set for the average of the Member States.

<sup>(1)</sup> Integrated Pollution Prevention and Control.

3.10 Member States must be free to decide on how to direct targets and actions to different sectors and forms of energy. It is, however, important that all sectors and fuels are included and participate in relation to their potentials.

3.11 The provisions of the draft Directive on documentation, verification and monitoring (Article 4.5) mean a workload that can be out of proportion to expected resulting benefit. The quality of proof of this work remains questionable as it is difficult to clearly connect a specific measure with a particular amount of energy saved. A much more simple and clear but reliable approach is needed.

3.12 The same results as with these mandatory actions can better be achieved by tackling the underlying problems of information and financing more directly. Actions in this direction are the provisions in Article 8 on establishing appropriate qualification, accreditation and/or certification systems for energy services. These provisions should be further developed and broadened. Innovative financing methods, like loans with low interest rates, need also to be developed, to help in cases of long pay back periods, as the examples mentioned in 3.6.

3.13 Measures to support and develop existing and proven voluntary actions should also be added. In accordance with Article 12, information and easy availability of energy audits, developing energy audit applications suitable for SMEs or a particular branch of activity and support for further training of people to be able to act as energy managers are examples of measures that have shown good results and should be enhanced by the Commission.

3.14 Instead of dealing with massive reporting, the Commission could support Member States in their efforts for better energy efficiency by helping them to create a better information base, both in the Member States and for itself. A thorough analysis of existing barriers to better energy efficiency is needed. The Commission could also enhance co-operation and exchange of best practices between Member States.

3.15 A proposal like this, with implications on markets and costs to consumers, must be subjected to a proper impact assessment. As this has not been done in the preparatory stage, the EESC calls for an assessment to be immediately executed, before decisions are made in the Council and Parliament.

3.16 The Commission presents the idea of possibly introducing at a later stage a system of so called white certificates.

Such a system could only work if binding obligations for energy conservation or efficiency are introduced. The EESC does not support the introduction of binding obligations for this purpose and cannot therefore support the introduction of white certificates either. In addition, the functioning of both emissions trading and trade with green certificates should be carefully monitored and evaluated before even thinking of introducing new schemes to an already complicated energy-related market.

#### 4. Detailed comments

4.1 In Article 3, Definitions, the concept of energy services should be more clearly defined. Also the threshold of 50 GWh in the definition of 'Small distributors and retail energy sales companies' should be re-evaluated — it may be impractically low.

4.2 Article 4 should be revised according to the General Comments of this Opinion.

4.3 Article 6(a) and 10(b): A growing supply of energy services is desirable. But the EESC does not agree with the Commission approach that these should be supplied by energy distributors and retail supply companies only, and the cost integrated into their distribution and sales prices until a certain market penetration has taken place. Already now energy services are supplied by others, too — like house-maintenance companies, consultants and ESCO companies — and the market for these must be open to everyone on equal terms. The proposal of offering a share of 5 % of customer services with no charge, at the cost of all customers, is not fair to customers and discriminates against other suppliers.

4.4 The concept of 'eligible customer' in Article 7 needs to be clarified.

4.5 Article 10(a): It is hard to see how transmission tariffs can be set so as to specifically enhance energy efficiency. It is not easy to understand the relevant mechanisms of the examples given in the paragraph.

4.6 The metering requirements in Article 13 can prove very costly, and it will always be the consumer who carries the costs, in the end. Measures on metering should therefore be approached carefully.

Brussels, 28 October 2004.

The President  
of the European Economic and Social Committee  
Anne-Marie SIGMUND