

The new EU Energy Efficiency Directive

What does it mean?

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On 22 June, the European Commission published a proposal for a Directive on Energy Efficiency (COM(2011) 370 final). http://ec.europa.eu/energy/efficiency/eed/doc/2011_directive/com_2011_0370_en.pdf. The document is packed with detail over 81 pages. In this Briefing Note, we summarise the key points and look at the possible implications.

1 The main points

- ▶ **It is a proposal** for a Directive from the Commission, and will not become EU law until the European Parliament and the EU Member States can all agree a final text some time in 2012. Having said that – it is clear that after many years, **the European Commission now means business on energy efficiency**.
- ▶ The aim is to ensure that the EU achieves its soft target of **reducing its primary energy demand by 20% by 2020** compared to business as usual projections. The proposal states that each Member State must set a **national target for energy efficiency** which, the Commission hopes, will combine to achieve the 20% EU target (Article 3).
- ▶ The proposal states that **3% of public sector floor space should be renovated annually** to achieve the minimum energy performance requirements laid down in the 2010 Directive on the Energy Performance of Buildings (Article 4).
- ▶ It states that each Member State should set up an energy efficiency obligation scheme that **requires energy suppliers to deliver 1.5% energy savings per year from their customers**, in terms of either primary or final energy demand. There is an opt-out on this measure if Member States want to use different means for achieving the same goal (Article 6).
- ▶ **It sets clear goals for real time consumption information to be displayed** to energy consumers by smart meters and their associated customer interfaces, and gives a lengthy list of requirements for the quality and type of information to be provided (Article 8).
- ▶ It requires all Member States to **produce heating and cooling plans that include the accelerated development of CHP**. It also requires that any new thermal power plant bigger than 20 MWe thermal input is sited where the heat can be used in CHP (Article 10).
- ▶ It requires T&D system operators to ensure that **barriers to CHP interconnection are removed and that CHP electricity is given priority dispatch** on par with the current arrangements for renewable energy (Article 12).
- ▶ It requires Member States to promote and encourage **ESCO development and energy services provision to SMEs** (Article 14).

2 Implications

If the Directive were to be agreed unamended, we see five major implications:

- ▶ **Strongly accelerated markets for supply-side and demand side energy efficiency products and services**, and increased opportunity for the companies that produce and install such measures.
- ▶ Accelerated growth of **CHP, including micro-CHP, CHP in buildings**, industrial CHP and, in particular, CHP in district heating systems.
- ▶ Accelerated introduction, alongside smart meters, of the **customer displays and interfaces** (Home Energy Management systems) that engage energy users in energy efficiency.
- ▶ Accelerated transition of the **business strategies of existing energy suppliers from commodity to service providers**. They will have to deliver year on year energy savings – to their customer base. Energy savings would be measured in either primary energy or final energy demand terms, and so this need not mean they deliver less energy, provided they source their energy from more efficient systems.
- ▶ Create new opportunities **for new entrant energy services providers** to capture the increased value available from the proposed requirement that energy suppliers deliver energy savings.

However, the proposal will certainly be amended to greater or lesser degree.

3 What will happen?

The final content of the Directive in 2012 is far too hard to call, but we believe that:

- ▶ Much will depend on choice of the **European Parliament rapporteur**, as he / she will have strong influence on the Parliament's negotiating positions.
- ▶ We believe **most of the features of the Directive will remain** and be moderately or lightly amended; a minority of measures may be heavily amended or removed.
- ▶ **Articles 6 and 10 are likely to face strong opposition** and may be heavily watered down or amended.
- ▶ The final directive will include some **requirement for Member States to incentivise CHP**, but probably not to the extent of requiring all new power plants to recover waste heat.
- ▶ The final directive will include measures **to accelerate the roll out of home energy management systems** (the customer interface) that enable customers to effectively control and manage their demand on the basis of energy prices. This is one of the more uncontentious articles.
- ▶ Achieving the 20% target is in fact not that hard to do (nowhere near as tough or as costly as the EU's 20% renewable energy target). This directive may be watered down to an extent that the target will not be achieved, **but the Commission will not stop with this proposal**. Others will follow over the next few years if the Commission is not content with the final agreed text on the Energy Efficiency Directive.

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