

Brussels, 25 May 2012

Recommendations & priorities on further proceedings on the Proposal for an Energy Efficiency Directive

EXECUTIVE SUMMARY

In view of the European institutions' further proceedings on the Commission proposal for an Energy Efficiency Directive, Orgalime submits its priorities and recommendations on the way forward for which we request your support.

Orgalime welcomes the willingness of European regulators to reach a first reading agreement on the draft Energy Efficiency Directive. However, concluding discussions should not be at the expense of the overall ambition of the Directive. While we acknowledge that the Council's work has progressed under the Danish presidency, we are seriously concerned about the level of ambition that it is, in our view, still too low as regards many provisions of the Directive. If final agreement between regulators is reached on a text which is largely devoid of substantive measures, the EU would once again be missing the opportunity to act as a catalyst to strengthen the market for energy efficient products and services. We therefore invite the European institutions to take the necessary time to arrive at quality legislation, which is coherent, enforceable and workable in practice, but also at ambitious legislation pursuing the 2020 energy efficiency objective and looking beyond.

We consider the draft Directive as an opportunity to provide an urgently needed common and holistic answer to the energy, climate change and resource efficiency challenges ahead by harmonising to the maximum extent possible current practices and efforts of the different Member States. A robust European framework will not only provide a clear political signal for sustainable, growth enhancing energy efficiency investments and thereby be a motor for generating growth in Europe. It will also help to secure free movement, reducing Europe's energy bill that today is strongly dominated by energy imports, and it can contribute to help to change consumer behaviour to reduce their individual energy consumption and related costs.

Orgalime industries are fully committed to continuously improving the energy use in their own processes, to placing on the market ever more energy efficient products and technologies for the consumer to enjoy and to play its role in facilitating better informed consumer choices.

While much has already been done by the European engineering industries, there is still a potential for increasing energy efficiency through better take up of cost effective technologies. We also believe that the most economic and simplest way to reach the 2020 objectives is to focus on the inefficient use of energy across market segments, such as the buildings and energy sectors.

Orgalime, the European Engineering Industries Association, speaks for 34 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 22 European countries. The industry employs some 9.7 million people in the EU and in 2010 accounted for some €1,510 billion of annual output. The industry not only represents some 28% of the output of manufactured products but also a third of the manufactured exports of the European Union.

Orgalime comments and recommendation aim at ensuring harmonisation to the maximum extent possible current practices and efforts of the different Member States thereby at last developing concrete measures which will help to make the 20/20/20 agenda a reality in all areas including energy efficiency. To ensure EU legislation that is workable and enforceable in practice, we kindly request for your support on the following core issues:

- Avoid setting mandatory energy saving targets, since these would hamper EU growth. Instead, we would advocate energy intensity targets in relation to economic output indicators.
- Establish an energy efficiency obligation scheme, including an opt-out clause and an exemption for small actors without lowering the overall ambition of the scheme. It should focus mainly on energy consumption of final consumers, including renovation of buildings.
- Strengthen requirements on both, private and public, building renovation, including inside equipment, in going beyond the proposed 3% target on public buildings as long as national particularities are taken into account and sufficient flexibility is given to Member States to achieve an equivalent improvement in the country's building stock. As an alternative, the scope of building renovation requirements could be amended and focus on buildings intended for public use.
- Encourage Member States to set up an Energy Efficiency Roadmap beyond 2020, including renovation objectives for 2030, 2040 and 2050 to reduce energy consumption of the existing building stock. While this would encourage innovation that we support, sufficient flexibility should remain in national plans since future best technologies are not known yet.
- Encourage the use of energy performance contracting and Energy Service Companies (ESCOs) that would accelerate the speed of building renovations.
- Harmonise energy efficiency product criteria for public procurement to take into account economic feasibility, technical suitability and fair competition for all products.
- Avoid targeting only products complying with eco design benchmarks in public procurement instead foster the market uptake of existing best available products and technologies. As an alternative, we propose that public bodies should not buy products below best available class.
- Strengthen consumer information and awareness on energy consumption with ambitious provisions on smart metering and informative billing, providing direct feedback to consumers on actual energy consumption (including possibly through in-home displays) and additional functionalities, as identified the European standardisation Mandate 441.
- Introduce demand response programmes and improve the European-wide market design of energy supply.
- Accompany energy efficiency measures with effective technical and financial support.

Orgalime specifies its recommendations hereafter:

1. Binding measures versus binding targets (Articles 1 & 3)

We support the current Member States approach built on the concept of setting indicative national targets coupled with concrete energy efficiency measures.

However, the reference base for such targets in industry raises our concerns. Setting absolute energy targets at the level of primary energy consumption could result in putting a ceiling not only for the EU industry, but for the whole economy and therefore undermine the long term EU strategy for sustainable growth and jobs. Instead, we would advocate for energy intensity targets to be defined in relation to economic output indicators, especially GDP.

The European Engineering Industries Association

Orgalime recommendations:

- **Avoid setting absolute cap on energy savings, such as through mandatory energy savings targets**
- **Define indicative energy efficiency targets on the basis of energy intensity in relation to economic output indicators**
- **Reject EP amendments 3, 64 and 85 of the draft Report of Rapporteur Turmes**

2. Energy efficiency obligation schemes (Article 6 & annex V)

We believe that the draft report of the European Parliament shows the right direction to establish ambitious energy efficiency obligation schemes, including an opt-out clause for Member States without lowering the overall ambition. Sufficient flexibility is necessary to secure cost efficient energy efficiency measures in more advanced Member States. Saving obligations should, in our view, be realised mainly to final consumers and also to the energy supply chain, but with a limited extent.

Moreover, it is essential to ensure unhindered access to energy markets for new actors and not to issue new barriers to achieve the effective liberalisation of energy markets. We therefore support the exemption of small energy distributors and small energy sale companies. This would, in our view, help new actors willing to enter in the energy market and thereby strengthen competition. However, we would recommend a careful approach when introducing flexibility on the criteria. Too much flexibility would distort competition on the EU energy market; instead, the criteria should be harmonised at EU level.

We also believe it is important that the proposed Energy Efficiency Directive (especially Article 6 itself) guarantees a fair level playing field for all market players as it has been proposed by the European Parliament and the Commission. In particular, we would like the Directive to promote an open and transparent partnership between energy services providers and energy suppliers in the framework of the obligations under Article 6.

In addition, the schemes should, in our views, foster the uptake of best available technologies currently available on the market through counting the dissemination of efficient equipment towards the energy savings. On the contrary, excluding some equipment from being eligible would reduce the incentive to install this equipment, while they are an energy-efficient replacement of the old equipment stock.

Orgalime recommendations:

- **Support EP amendment 68 of the draft Report of Rapporteur Turmes**
- **Maintain Commission proposal for the exemption criteria for small actors (Article 6.8)**

3. Strengthening requirements on building renovation (Article 4)

Considering that over 80 % of existing buildings will still exist in 2020 and nearly 40% of the final energy consumption arises in buildings, refurbishment of all existing buildings should be the top priority to achieve the 2020 objectives. We therefore welcome that the European Parliament is backing the Commission's proposal regarding building renovation requirements and has clearly emphasised that renovation should not target only the building envelope, but should also include building equipment, operation and maintenance, as well as the behaviour of occupants.

We would like to stress that ambitious objectives for renovation would have to be set for all existing buildings for 2020, both private and public, but also for the long term. The Council proposals, while going in the right direction, are in our view too timid a step to achieve the necessary energy savings in buildings. Therefore, renovation requirements should not apply only to buildings owned by central government or public authorities, or those with a total useful floor area over 250 m². Indeed, inserting an opt-out clause for small surface building also leads to excluding social housing. Buildings owned or occupied by central government only represent a small fraction of the public building stock. An alternative solution could be to change the scope of the building categories and to focus on buildings intended for public use (including publicly owned housing) instead of central government buildings. Such a move will ensure a tangible impact on the building market without affecting public deficits.

We support replacing an old building by a new one instead of renovating it when it is more efficient both in terms of energy and economics. New buildings replacing demolished buildings should also count towards the annual renovation rate. We also encourage Member States to set up an Energy Efficiency Roadmap beyond 2020, including renovation objectives for 2030, 2040 and 2050 to reduce energy consumption of the existing building stock. While this would encourage innovation that we support, national plans should allow sufficient room for further technology developments.

We support the Commission's proposal for an annual renovation target on public buildings. We feel that the 2.5% target proposed by the European Parliament is not sufficiently ambitious as an initial step. To achieve the target of a 20% energy efficiency gain, we recommend European Institutions to go beyond this target, as long as national particularities are taken into account, such as the different structures of the public building stock or available public finances according to the housing policy of each Member State. In addition, sufficient flexibility should be given to Member States to achieve equivalent improvement of building stock. In the current context of austerity, we strongly support the use of energy performance contracting and Energy Service Companies (ESCOs). Having already proved to be costs effective in some EU Member States, the use of ESCOs would accelerate the speed of building renovations.

Orgalime recommendations:

- **Support EP amendments 65 and 66 of the draft Report of Rapporteur Turmes**
- **As an alternative, the scope of building renovation requirements could be amended and focus on buildings intended for public use (including publicly owned housing)**
- **Go beyond the proposed 3% target proposed by the Commission on public buildings as long as national particularities are taken into account and sufficient flexibility is given to Member States to achieve an equivalent improvement in their national building stock**

4. An active public sector promoting energy efficiency and leading by example (Article 5 & annex III)

Considering that public spending represents some 19% of the EU GDP, public procurement offers many opportunities to incentivise the market for energy efficient products and services. We therefore welcome a better consideration of energy efficiency aspects and the opportunity to promote products, services and buildings with high energy performance.

We support the harmonisation of criteria taking into account energy efficiency, but also economic feasibility, technical suitability and fair competition for all products.

However, we see a conflict between these general public procurement rules and annex III.b that would oblige public bodies to only purchase top benchmark products under the Eco Design Directive 2009/125/EC. To remain ambitious, Annex III.b would have to be modified to specify that public bodies should not purchase products which are below class A.

To allow public procurement to deliver its full potential in promoting products, services and building with high energy performance, we feel the need to go beyond a guidance approach in making these criteria mandatory, as proposed by the European Parliament.

Orgalime recommendations:

- **Support a better consideration of energy efficiency aspect in public procurement and a harmonisation of annex III criteria taking into account economic feasibility, technical suitability and fair competition for all products.**
- **Avoid targeting only products complying with eco design benchmarks in public procurement instead foster the market uptake of existing best available products and technologies.**
As an alternative, modify Annex III.b to specify that public bodies should not purchase products below best available class (instead of being limited to benchmark products under the Eco Design Directive)

5. Strengthening provisions on smart metering (Article 8 & annex VI)

Orgalime supports strengthening consumer information and awareness on the energy consumption, especially with provisions on smart metering and informative billing. Orgalime particularly welcomes that the European Parliament has seen fit to introduce ambitious provisions on smart metering, which will empower both consumers and the European Union in achieving the ambitious energy efficiency objective.

Minimum functionalities, such as an interface to the home, and information requirements, that enable energy efficiency and provide consumers with energy consumption information are a necessity to realise the large potential for consumer benefits. Metering provisions should not only require the secure transmission of information on actual time of use, but also real time information to the consumer.

Consumer interfaces can be included in smart meter designs. These will allow their use for consumer feedback or demand response at time of installation or at a time later as the discretion of national governments, energy regulators and energy companies. Failure to include consumer interfaces will result in excluding the main benefit for the consumer for the lifetime of the smart meters.

The lower frequency of billing, as proposed by the Council, raises our concerns since it would limit consumers' ability to have feedback on energy consumption and adjust their energy use accordingly. On the contrary, more frequent communication of billing information (i.e. on a monthly basis) based on actual consumption is essential to allow consumers to benefit from the knowledge that will lead to energy savings. Moreover, a real-time interface will allow consumers to actively manage when and how they consume energy and use energy from renewable sources more efficiently.

In addition, the draft report of the European Parliament shows, in our view, the right direction in introducing to a definition of "smart metering", which would be helpful to provide a common understanding and a common reference for all future EU legislation. Metering should be smart, secured, respect the privacy of end-user, provide direct feedback to consumers and additional functionalities, as identified in European standardisation Mandate 441.

Orgalime recommendations:

- **Support EP amendments 53, 70 and 71 of the draft Report of Rapporteur Turmes**

6. Improving efficiency in energy supply through Demand-Response Programmes (Articles 10-12)

A secure energy supply depends not only on sufficient production capacities, but also on powerful and integrated grids. There are currently no consistent conditions for developing a sustainable smart grid system in Europe, which will be sufficiently flexible to deal with immediate requirements due to the change in the energy mix and to offer sufficient possibilities for innovative applications in the future.

We welcome the introduction by European Parliament of provisions improving the European-wide market design and measures to encourage technologies and systems enabling demand response programmes; these were unfortunately not included in the Commission's proposal,. While many countries do not allow demand response to participate in energy markets in Europe, this technology would contribute to creating a flexible and intelligent energy system, in particular with the current increase of renewable energy in Europe.

We believe that demand response alone could achieve 25-50% of the EU's 2020 targets concerning energy savings and CO2 emission reductions.

We therefore support the amendment of the European Parliament that would help to remove barriers impeding the development of demand response programmes in many countries (for example by defining the role of energy aggregators). It is also important to have national energy efficiency action plans comprising a section of countries plan with regard to demand-response programmes' deployment.

Orgalime recommendations:

- **Support EP amendment 75 of the draft Report of Rapporteur Turmes**

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