BRIEFING

WILL THE WINTER PACKAGE DELIVER ITS PROMISE TO PUT 'EFFICIENCY FIRST'?

WHAT IS THE WINTER PACKAGE?

On 30 November 2016, the European Commission published its long-awaited Winter Package (also called the Clean Energy for All Europeans proposals). The Winter Package sets out the energy policy framework going forward to 2030 and beyond. It contains important proposals for a wide range of energy-related issues including energy markets, energy infrastructure, renewable energy, climate policy, and energy demand.

ENERGY EFFICIENCY IN THE WINTER PACKAGE

The Winter Package is meant to deliver on the commitment of the European Union to make 'Efficiency First' a guiding policy principle in future energy policy making (EC 2015). Energy efficiency is one of the key elements of the Winter Package and features in the various legislative proposals. Five of the proposed legislative instruments that directly affect the Energy Union's goals to deliver greater energy efficiency to European energy economies are: the revised Energy Efficiency Directive (EED), the Energy Performance of Buildings Directive (EPBD), the Directive on common rules for the Internal Energy Market for electricity (IEM), the Regulation on the electricity market, and the Regulation on Governance of the Energy Union.

ASSESSMENT OF KEY PARTS OF THE WINTER PACKAGE

A team of experts from the Regulatory Assistance Project (RAP) and the Buildings Performance Institute Europe (BPIE) has analysed the proposals in detail - this assessment has been published as a peer-reviewed journal article and can be downloaded here. We assess each of the key elements of the Winter Package in this briefing. Our assessment is carried out against the commitment of the European Union to make 'Efficiency First' a guiding policy principle in future energy policy making. We assign a rating of "Supports Efficiency First" (green), "Needs Improvement" (yellow), and "Inconsistent with Efficiency First" (red) in the sections overleaf.

Energy Efficiency Directive (EED)

The level of ambition for end-use energy efficiency determined by the EED is maintained until 2030 and beyond. However, some of the EED's main weaknesses (exclusions and exemptions, lack of clarity on additionality requirements) remain and further complications have been added through the introduction of a new period that does not build on the previous period in terms of cumulative savings. This could be compensated by a mandate that is higher than the 1.5% target. However, politically it may be difficult to achieve in the upcoming negotiations. Thus, rectifying the lack of clarity regarding additionality of building codes applying to new buildings and linking the current period with the new one are two options for strengthening the EED without raising the top-line level of ambition.

	CURRENT PROPOSALS	OUR RECOMMENDATIONS
2030 ENERGY SAVINGS TARGET	30% binding energy savings target by 2030, instead of the 27% initially discussed in the 2030 Energy Strategy.	Increase target to 40% in line with cost-effective potential.
EXEMPTIONS AND EXCLUSIONS	Keep exemptions at 25%. Continue to allow for transport to be excluded from the target calculation.	Take out exemptions. Include transport in the target calculation.
ADDITIONALITY AND BUILDINGS	All renovations can fully count towards Article 7. No clarity on how energy savings from new buildings can be counted towards Member States' targets.	Keep clarification for renovations for new buildings, only allow Member States to count energy savings that are additional to national building codes (or exclude new buildings from scope of EED).
SUNSET CLAUSE	Extend sunset clause to 2030 and potentially for another 10 years.	Ensure periods 2014-2020 and 2021-2030 are aligned. Maintain ambition levels across periods.
TREATMENT OF SAVINGS FROM OLD MEASURES	Member States cannot count savings from old measures as if they were new savings in 2021-2030.	Keep current proposals as they are.

Energy Performance of Buildings Directive (EPBD)

The proposed reforms to the EPBD are unambitious and consist mainly of streamlining existing legislation, albeit leaving several gaps such as not directly aligning the obligation to renovate public buildings with the building renovation strategy. The proposal states that the EU building stock should be decarbonised by 2050, but omits a definition of a decarbonised building stock and does not require Member States to adopt a long-term renovation target in line with the ambition for all new buildings to be nearly zero energy. The main innovative change is the introduction of a "smartness indicator", which is supposed to ensure that buildings are ready to connect and interact with the occupants and the grid. In principle, this is a promising approach but the EPBD does not yet specify what this will mean in practical terms. In order to make the Directive more effective and drive deep renovation of buildings, fundamental revisions are required, such as developing tools, like individual building renovation passports, to better inform and encourage building owners to invest in their buildings, and expanding existing legislation to require renovation of all public buildings.

	Current proposals	Our recommendations
Long-term vision for 2050	Continuation of national renovation strategies to deliver long-term 2050 goal to decarbonise national building stocks, with specific milestones for 2030 (EPBD). National renovation strategies now moved to the EPBD.	Define decarbonised building stock: highly-energy-efficient buildings with a very low energy demand supplied by renewable energy sources and intelligently integrated into a decarbonised, flexible energy system. Provide clear guidance to Member States on the content and development of national renovation strategies (including a suite of policies, investment mobilisation, and a breakdown of the building stock) and require regular review and updates. Develop and provide a clear methodology to Member States on measuring progress in implementing renovation strategies.
Stimulating deep renovation	Continuation of national renovation strategies beyond 2020.	Set long-term renovation targets in line with the ambition for all new buildings to be nearly zero energy. Introduce minimum energy performance levels for commercial and public buildings and requirements to renovate to meet these levels. Require Member States to set "trigger points" and act on them to capitalise on renovation opportunities. Require Member States to provide tailored advice to owners on how to properly plan, finance and implement deep renovation, creating roadmaps for the renovation of individual buildings (individual building renovation passports). Extend the requirement to renovate central government buildings to cover all public buildings.
Ensuring future proof buildings	Introduction of a smartness indicator. Building automation and energy monitoring system requirements as an alternative to inspections.	The smartness indicator should encompass, at least, high building performance, dynamic operability and energy system responsiveness. Reflect smart buildings in the definition of nearly Zero-Energy Buildings. Ensure that the role of smart buildings is recognised in internal-energy-market related legislation.
Planning and reporting	Reporting on implementation of national renovation strategies under integrated national energy and climate progress reports (within the Governance Regulation).	Require Member States to regularly update national renovation strategies at least every three years (as it is currently).

Internal Energy Market

New provisions introduced into the Directive on common rules for the Internal Energy Market for electricity (IEM), and into the Regulation on the electricity market the Electricity Directive strengthen the recognition of energy efficiency as a resource to the electricity system, but fall short of delivering a policy framework to stimulate planning and investment in energy efficiency on a level basis with supply-side resources. In the European unbundled market environment, it is important to consider both the role of energy markets and of regulation of network companies to assess progress on energy efficiency in the policy framework. In energy markets there is, on the one hand, emphasis on equal treatment of supply- and demand-side resources, including energy efficiency. Member States must also consider demand-side measures and energy efficiency in identifying pathways to address resource adequacy concerns. On the other hand, there is no requirement that capacity remuneration mechanisms – which serve to overcome reliability concerns – allow energy efficiency to compete on comparable footing with supply-side resources. In the area of network regulation, a new provision requires regulators to provide incentive frameworks and cost recovery for innovative measures to raise the energy efficiency of distribution networks. This could be a strong stimulus for investment in energy efficiency as an innovative approach to meet the needs of distribution systems; however, clarification is needed to ensure that the framing includes end-use energy efficiency. Distribution system operators are encouraged to consider energy efficiency as an alternative to investments in the network infrastructure, but not required to do so. Simply creating an enabling framework is unlikely to stimulate investment in energy efficiency, beyond any required under energy efficiency obligations.

	CURRENT PROPOSALS	OUR RECOMMENDATIONS
ENERGY EFFICIENCY AS A RELIABILITY RESOURCE	All generation, storage and demand resources must participate on equal footing in the market. Member States must consider several pathways to addressing resource adequacy concerns, including demand-side measures and energy efficiency.	Introduce requirement that energy efficiency (and demand response) compete on equal footing with generation in capacity markets.
ENERGY EFFICIENCY AS A TRANSMISSION AND DISTRIBUTION RESOURCE	Member States must design regulatory frameworks for distribution system operation that, among other things, consider energy efficiency measures that may supplant the need to upgrade or replace electricity capacity, and that support the efficient and secure operation of the system. Member State regulatory authorities must provide performance incentives for innovative solutions to distribution system operation, and must introduce performance targets, and recognise innovative measures to raise efficiencies, including energy efficiency, of DSO networks as fully eligible for cost recovery.	Mandate DSOs to undertake demand-side investments where more cost-effective or valuable. Explicitly include end-use energy efficiency within the scope of performance incentives and cost recovery linked to improving the energy efficiency of distribution networks.

Governance Regulation

The Governance Regulation recognises the crucial role that energy efficiency must play in meeting the Union's 2030 and 2050 climate and energy goals, and sets out a planning process that would chart a path to meeting energy efficiency goals in each Member State. However, the Regulation reveals a striking gap between assessment and enforcement. It does not chart governance rules that would cause Member States, utilities, and system operators to invest in efficiency where it is less expensive or more valuable than supply-side options; nor does it contain specific enforcement tools to pay for and deliver energy savings if Member State efficiency programs were to underperform. Since a failure to deliver cost-effective energy savings will make every other element of the Energy Union more expensive and harder to reach, the enforcement gap for efficiency is a serious problem that requires considerable attention as the Winter Package proceeds through the adoption process.

	CURRENT PROPOSALS	OUR RECOMMENDATIONS
INTEGRATED NATIONAL ENERGY AND CLIMATE PLANS	Member States must submit 10-year climate and energy plans including the methodology and policy measures used to achieve EED Article 7 targets and long-term renovation strategy.	Keep requirements but ensure detailed reporting on Article 7 and long-term renovation strategy is maintained.
NATIONAL OBJECTIVES AND TARGETS	Need for Member States to set out targets with a linear trajectory for meeting goals from 2020 to 2030. Energy efficiency is not mentioned with regard to energy security and the Internal Energy Market.	Harmonise with Article 7 requirements that do not require a strictly linear trajectory. Require examination of potential of energy efficiency to reach Energy Security and the Internal Energy Market targets.
SETTING MEMBER STATES' CONTRIBUTIONS	Requirements for Member States setting their indicative national energy efficiency contributions for 2030.	Establish mechanism to ensure that individual national plans will add up to meeting the Union's energy-savings goals.
NATIONAL POLICIES - METHODOLOGY	Projections concerning security of supply, infrastructure and market integration need to be linked to robust energy efficiency scenarios.	Introduce mandate to acquire all cost-effective efficiency; base other energy plans on this Efficiency First policy.
REPORTING AND ASSESSMENT	Efficiency not mentioned in the sections on reporting for energy security and the Internal Energy Market.	Require Member States to report on efficiency in the context of energy security and the Internal Energy Market Add option for European Commission to establish a European energy efficiency fund if progress insufficient (similar to renewable energy section).

CONCLUSION

The Winter Package is an important and, in many parts, ambitious proposal for an energy policy framework going forward. The importance of energy efficiency and Efficiency First are highlighted, especially in the EED and Governance Regulation. However, beyond the high-level commitment there are many areas where the Winter Package falls short of comprehensively adopting the Efficiency First principle.

It is important to get each part of the Winter Package right - we need a well-designed EED as a driver for energy efficiency improvements across the economy, an ambitious EPBD to avoid lock-in into inefficient new building infrastructure, an IEM that puts demand-side resources on an equal footing with the supply-side, and a robust monitoring, reporting, and course-correction regime under the Governance Regulation.

Our key conclusions from reviewing the Winter Package are:

Energy Efficiency Directive

The EED will provide a key driver for efficiency investment across the EU. The updated version does not reduce the ambition level compared to the current Directive and has improved in many areas, but there is further potential for improvements. The headline target of the EED can and should be increased - analyses of the cost-effective potential of energy efficiency show that a target of 40% is justified even if we do not count the multiple societal benefits of energy efficiency.

Energy Performance of Buildings Directive

The Directive should be effective in encouraging renovation of the building stock as this would deliver substantial energy savings and reduced greenhouse gas emissions. The Package intends to deliver benefits for Europe's citizens, and a significant improvement of the on-average inefficient building stock would provide a long list of benefits to Europeans. The Directive should encourage Member States to introduce more effective tools (such as individual building renovation passports) and programmes (such as investment programmes) integrated into national renovation strategies. In order to make the Directive more effective, fundamental revisions are required, harmonising the targets for buildings set out in the EPBD with the new 2030 framework and a clear vision for 2050. Europe's vision should be to have a decarbonised building stock comprised of healthy, comfortable, affordable, sustainable buildings with a very low energy need, supplied by renewable energy sources, and intelligently integrated into a decarbonised, flexible energy system. The proposed reforms to the EPBD will not deliver this vision as they consist mainly of limited changes and streamlining existing legislation.

Internal Energy Market

New provisions introduced into the Electricity Directive and Regulation strengthen the recognition of energy efficiency as a resource to the electricity system, but fall short of delivering a policy framework to stimulate planning and investment in energy efficiency on a level basis with supply-side resources. Energy efficiency is recognised as a reliability resource, yet there is no requirement that capacity remuneration mechanisms allow energy efficiency to compete on comparable footing with supply-side resources. Regulators must provide incentive frameworks and cost recovery for innovative measures to raise the energy efficiency of their networks. This could be a strong stimulus for investment in energy efficiency; however, clarification is needed to ensure that the framing includes end-use energy efficiency. DSOs are enabled to invest in energy efficiency, but not required to do so. Simply creating an enabling framework is unlikely to stimulate investment in energy efficiency, beyond any required under energy efficiency obligations.

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AUTHORS

Jan Rosenow, Richard Cowart, Edith Bayer, Mariangiola Fabbri

CONTACTS

The Regulatory Assistance Project (RAP)® is an independent, non-partisan, non-governmental organization dedicated to accelerating the transition to a clean, reliable, and efficient energy future.

Rue de la Science 23
B – 1040 Brussels
info@raponline.org
www.raponline.org

The Buildings Performance Institute Europe is a European not-for-profit think-tank with a focus on independent analysis and knowledge dissemination, supporting evidence-based policy making in the field of energy performance in buildings. It delivers policy analysis, policy advice and implementation support.

Rue de la Science 23
B – 1040 Brussels
info@bpie.eu
www.bpie.eu