

# Article 7: 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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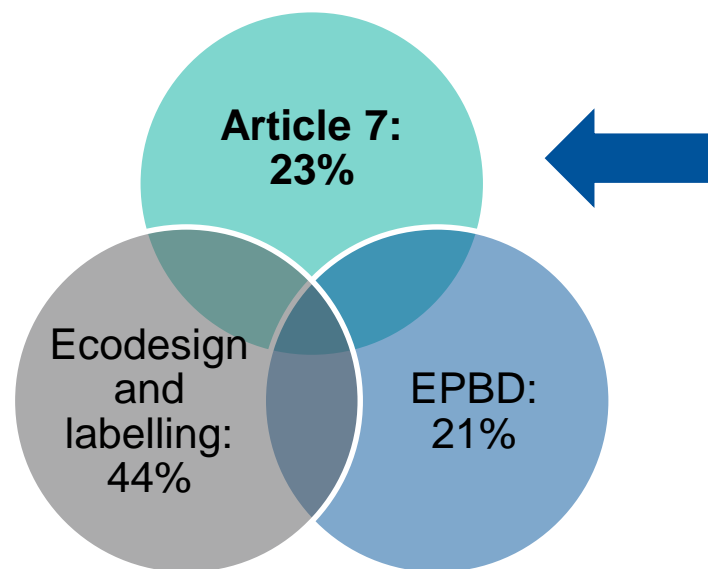
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# Article 7 is a key policy area to reach 2020 target (and beyond)

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

# The basic model of an EEO



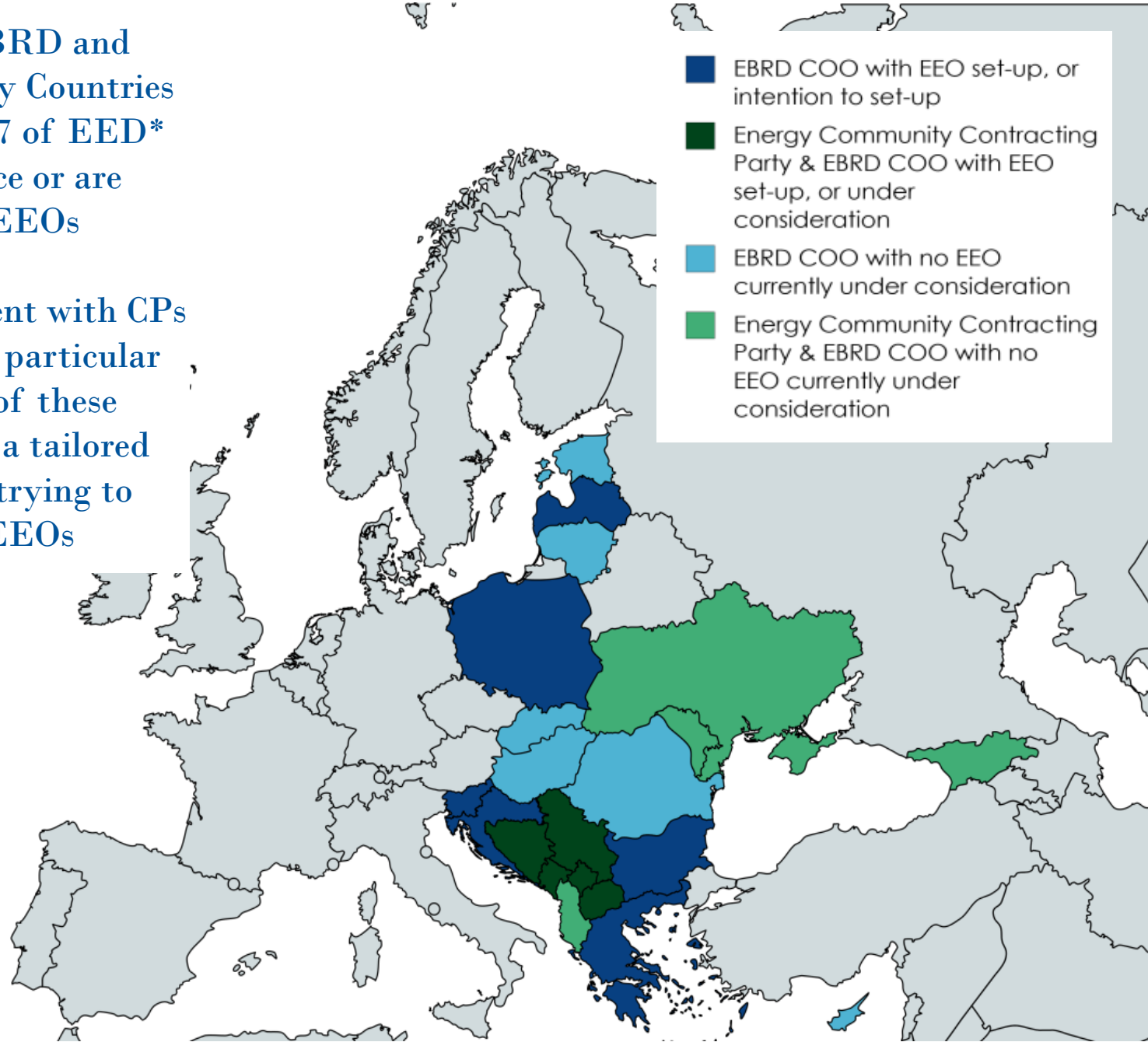
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Government obligates energy companies to deliver energy efficiency improvements.

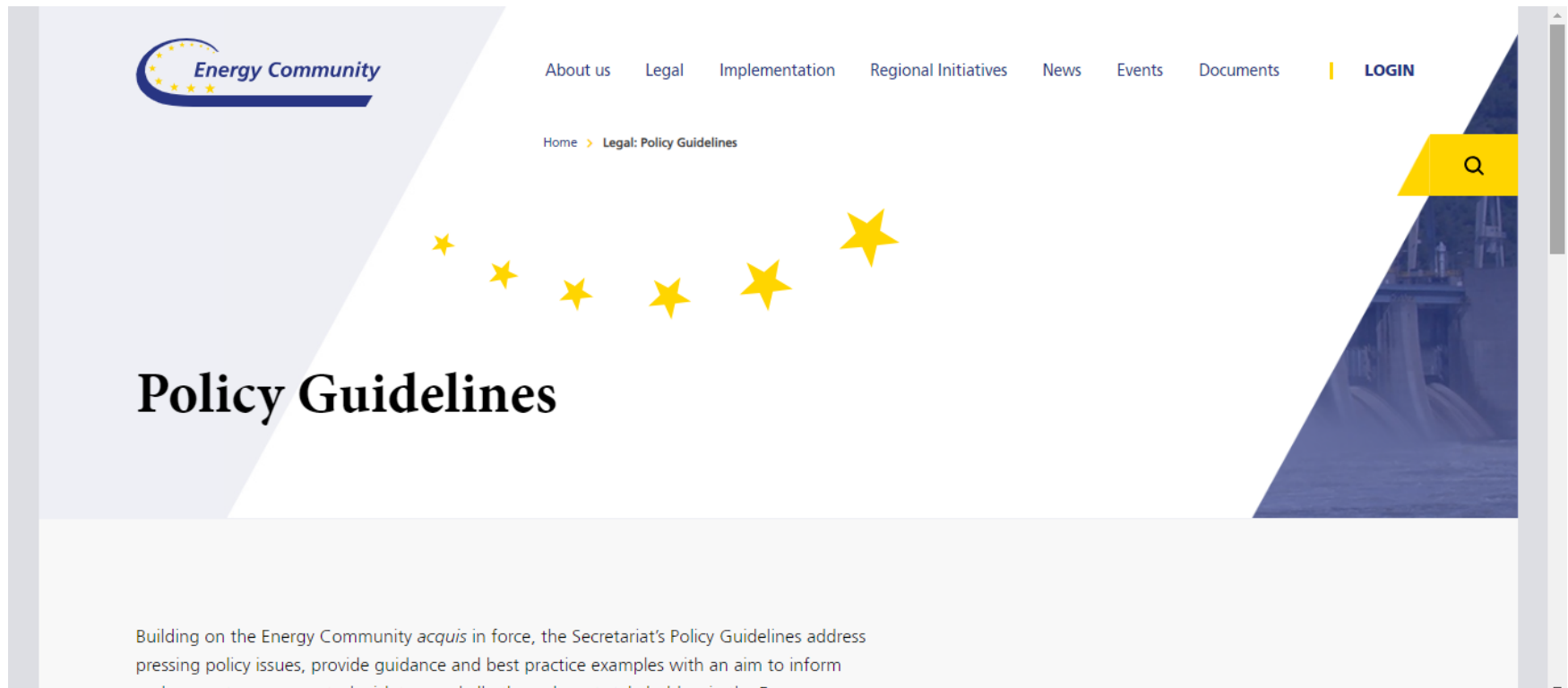


Many of the EBRD and Energy Community Countries subject to Article 7 of EED\* have put in place or are considering EEOs

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



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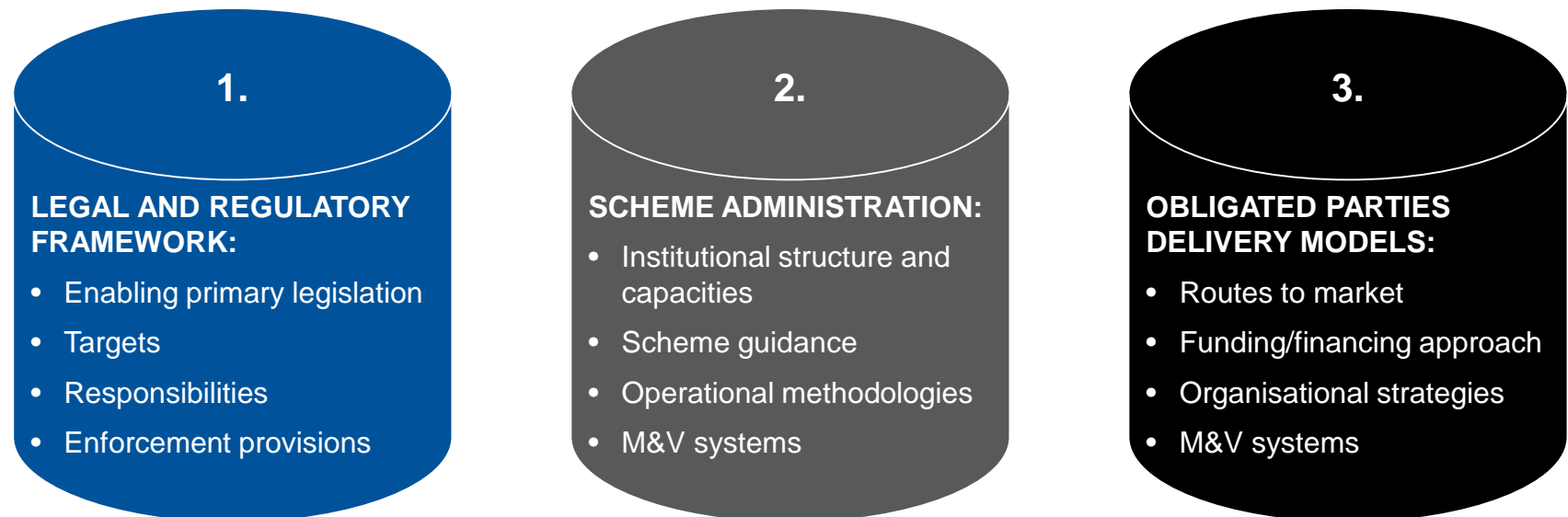
## Policy Guidelines

Building on the Energy Community *acquis* in force, the Secretariat's Policy Guidelines address pressing policy issues, provide guidance and best practice examples with an aim to inform and support governments, legislators and all other relevant stakeholders in the Energy...

- <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

# Example of an issue and best practice approach on how to address

## 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

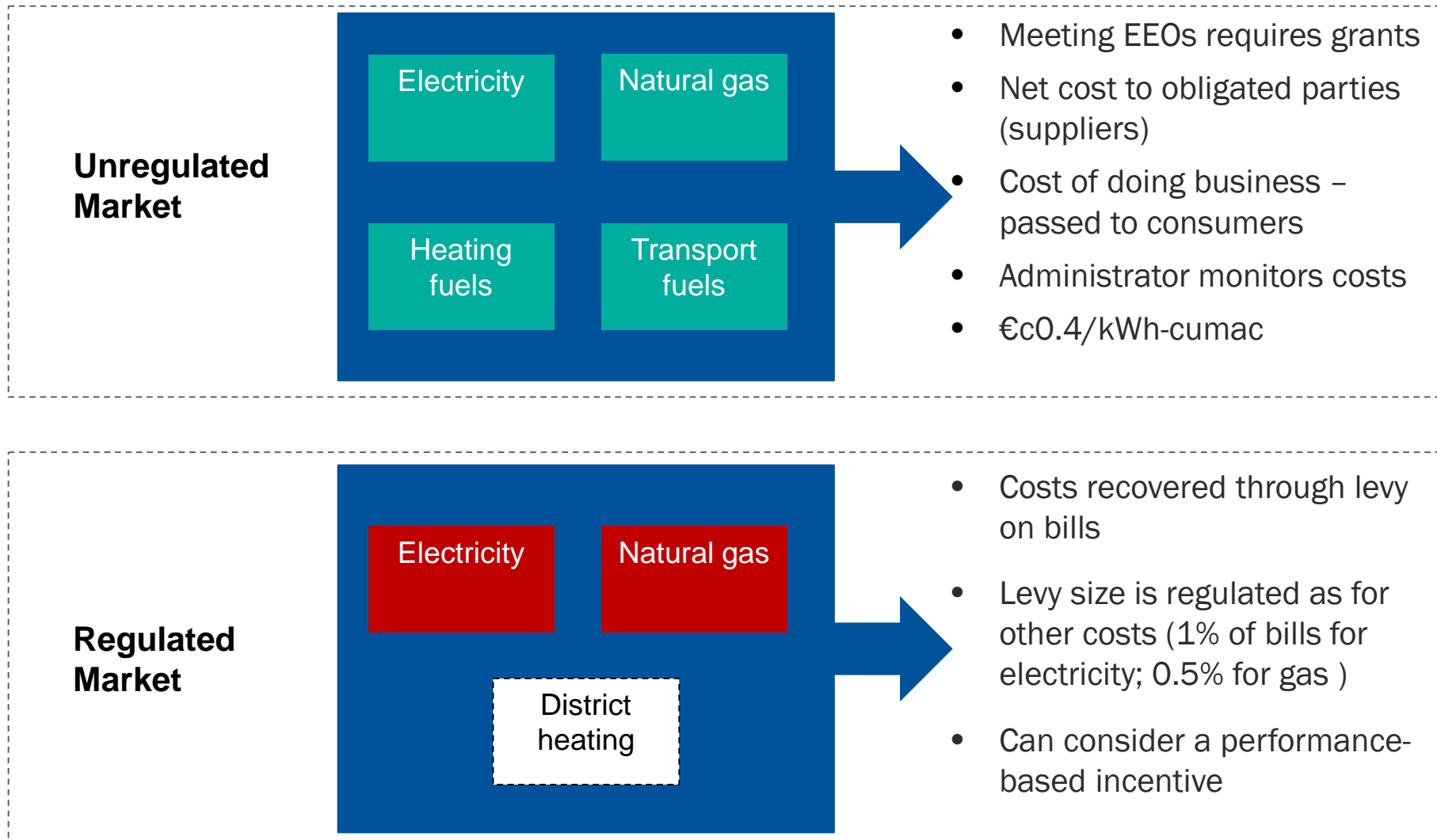
OP concern over tight regulated margins

Costs to consumer become more visible than benefits

# Best practice in managing cost recovery - France



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Thank you



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Consumers need help (audits, advice, financing, incentives, etc.) to invest in EE measures

- Energy companies can overcome barriers, work directly with consumers, or support those who do

EEOs place responsibility for EE on the actors in the sector directly connected to the provision of energy

- Existing relationship with end users, access to data

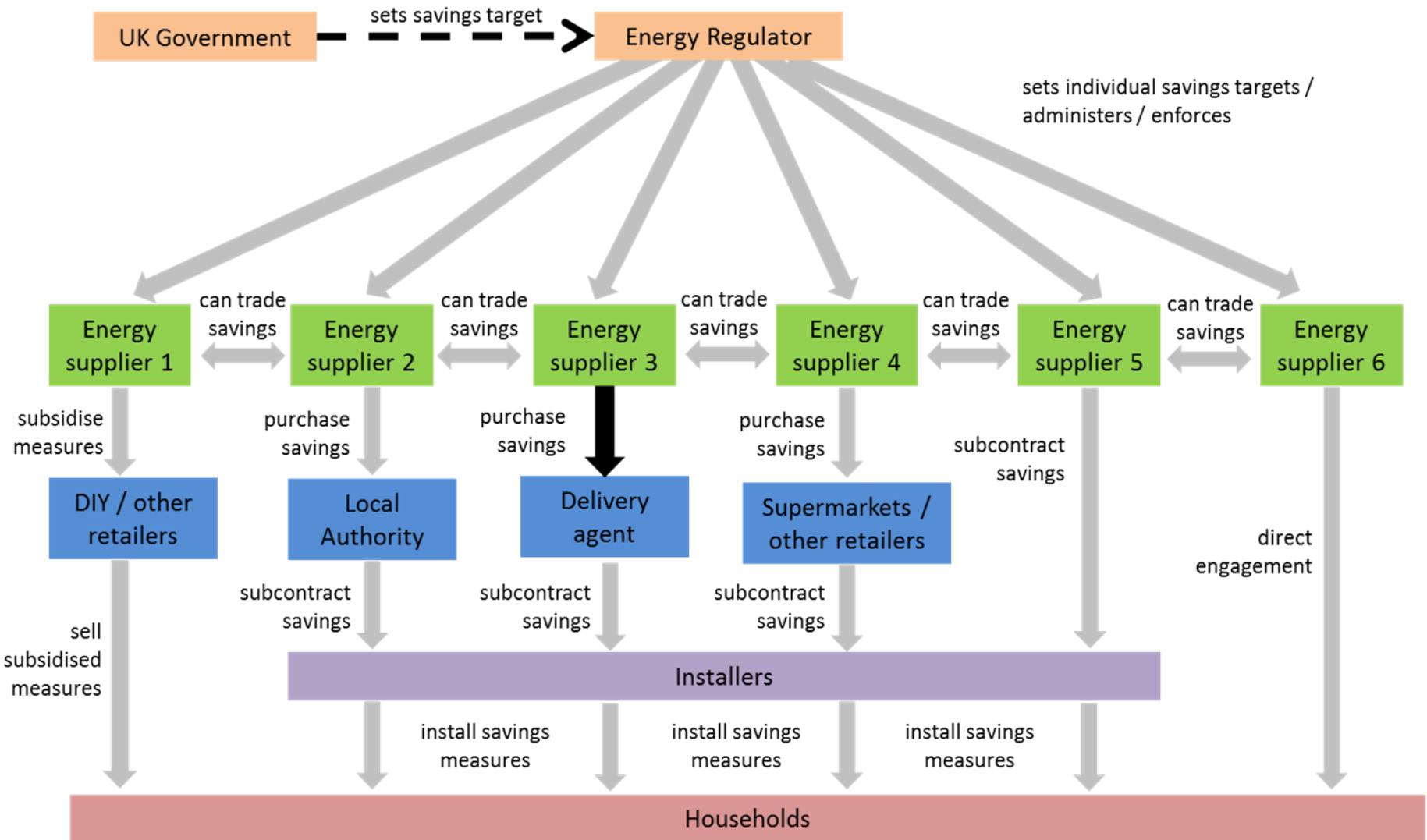
Energy companies can be a stable source of revenues

- Access to capital, other resources, delivery network

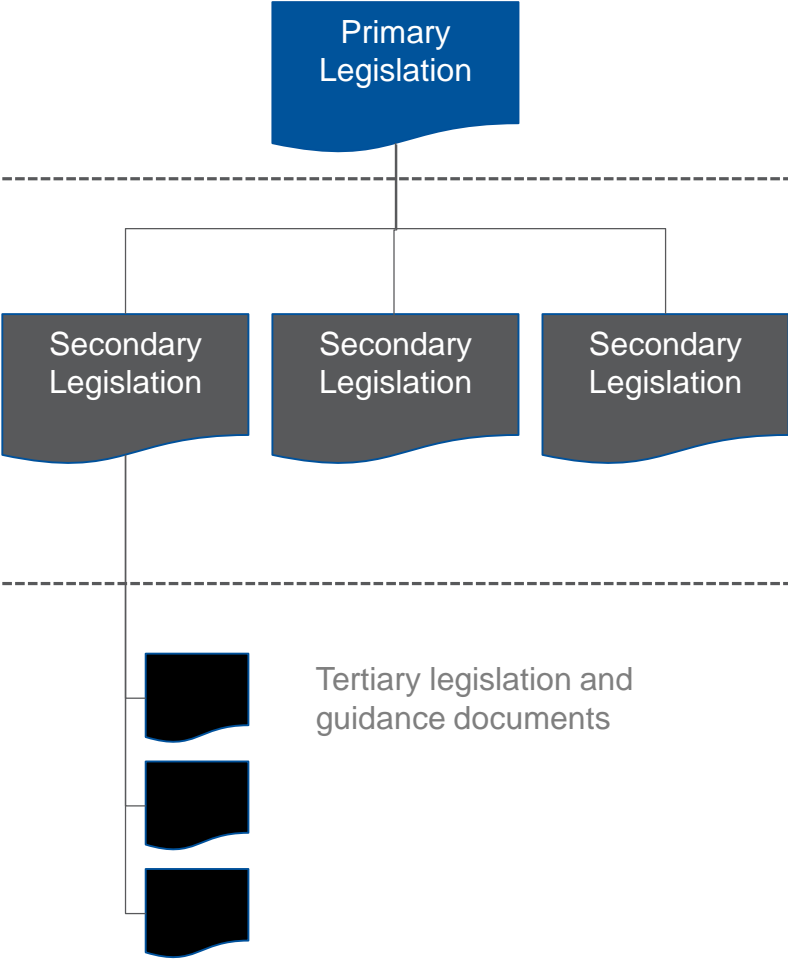
Energy companies also have key roles in other parts of an EE policy package

- Consumer education, smart metering and tariff reform

# Operation of an EEO



# 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?

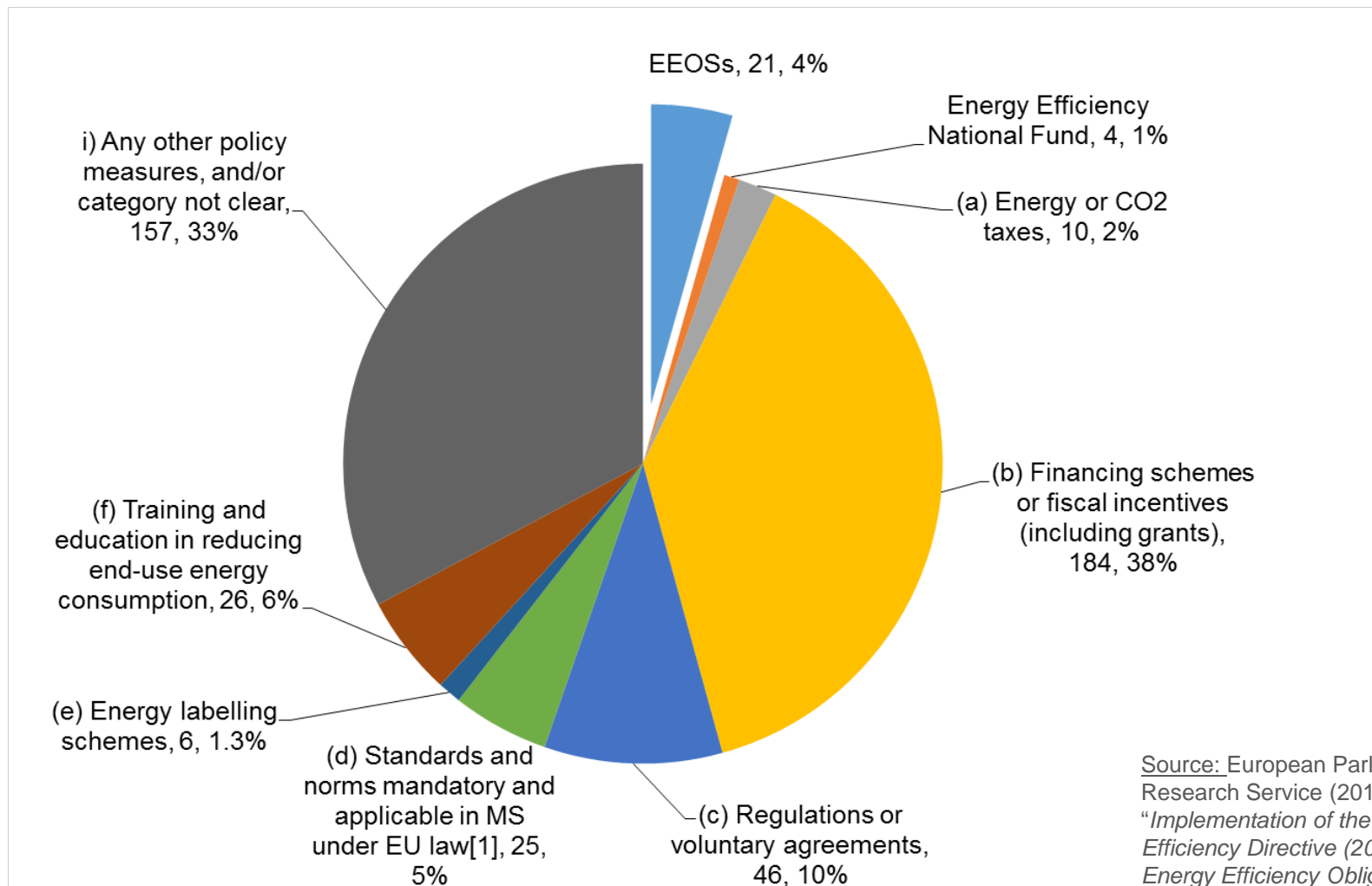
## Key issues for EBRD COOs:

- 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

# Article 7 EU MS – policy instruments notified



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Source: European Parliamentary Research Service (2016) "Implementation of the Energy Efficiency Directive (2012/27/EU): Energy Efficiency Obligation Schemes"



# Article 7 EU MS – contribution of energy savings



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