



EUROPEAN ALLIANCE TO
SAVE ENERGY
Creating an Energy-Efficient Europe

POSITION PAPER — Energy Union

Energy Union will succeed by putting Efficiency First

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Introduction

As key stakeholders in the European energy industry, the members of EU-ASE welcome the creation of the Energy Union and look forward to the positive impact that its success will have on European energy security and sustainability. That success will require bold choices, the implementation of which must be characterised by policies that are strong, smart, and timely, especially when it comes to maximising returns on monetary investments.

The creation and execution of such policies should rest, in part, on five principles:

1. “Efficiency First” policy compass
2. Enforcement of existing regulations
3. Reclassifying energy efficiency investments
4. Strong 2030 governance
5. Increased ambitions for 2030 energy-reduction goals

Five Principles of Energy Union Success

1. “Efficiency First” Policy Compass

For the Energy Union to succeed, energy efficiency must be at the forefront of its development and operation. So important is energy efficiency to its success, in fact, that the Energy Union should adopt a policy compass that may be expressed in the motto “Efficiency First”.

Simply put, the Efficiency First policy compass is an organising principle specifying that demand-side options should be considered fairly in energy sector planning, investing and purchasing, and that such measures are given priority whenever they are shown to be less expensive or more valuable to society than their conventional, supply-side alternatives. This will require the Commission and Member States having a clear view on forward energy demand projections, and the role of further measures to reduce

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demand, can play in reducing the need for supply side investment. In this way the efficiency first principle can be embedded in energy infrastructure planning to deliver the Energy Union and reduce the risk of over-capacity and asset stranding.

As part of its approach, the Efficiency First policy should include a “savings test” that places demand-side energy efficiency investments on equal footing with conventional supply-side investments. This “savings test” would simply require that any proposed supply-side investments be compared to their demand-side, energy-saving equivalents, and that the two types of investments be allowed to compete fairly on their economic merits. Whichever investment proves superior economically wins the comparison, and if they are shown to be nearly equivalent, priority is given to the energy efficiency investment, owing to its beneficial impacts on society and the environment.

This will help to maximise the impact of subsequent investments and to ensure that funds spent on upgrading and improving Europe’s energy infrastructure are optimally leveraged to yield strong returns. In the process, it will help to strengthen the European economy, job growth, and competitiveness¹. An Efficiency First approach may also create many new business opportunities in the efficiency and demand response sectors – e.g. if demand side participants are allowed fair access to power markets and possible capacity mechanisms.

This Efficiency First principle is especially timely because the current European social and political environments are primed to embrace it. Two-thirds of the Member States have expressed their backing for the 30% binding energy reduction target proposed for 2030, and the public promotion of the Efficiency First concept will be a way to capture and crystallise this political support. It will also help to make the Energy Union more relevant and interesting to EU citizens and businesses.

Energy efficiency is the real driver for Europe’s energy productivity, and the recently launched “Energy Productivity Index”² shows once again how Europe could double its current level of energy efficiency by deploying existing technology more ambitiously.

The “efficiency first” principle shall lead to a clear set of ambitious policies and actions at EU level prioritising sectors with the biggest potential to boost buildings refurbishment and promotion of efficient technologies and services in industry for example.

2. Enforcement of Existing Regulations

Numerous EU regulations already exist to promote the use of energy efficiency technologies and services. Unfortunately, such regulations are only as effective as their enforcement mechanisms, and deficiencies in the current mechanisms inhibit the ability of the regulations to accomplish their intended purposes.

To remedy this situation and advance its goals, the Energy Union should implement measures to improve the oversight, surveillance, and enforcement of existing regulations in the energy sector, such as the Energy Efficiency Directive (EED). In addition, the EED should be reviewed and updated, as necessary, to include provisions that strengthen and support its existing enforcement mechanisms—in particular,

¹ “[EU-ASE Recommendations for the EU Jobs, Growth, and Investment Package](#),” EU-ASE paper, 14 November 2014

² Ecofys, The Lisbon Council, Quintel Intelligence, Philips “The 2015 Energy Productivity and Economic Prosperity Index: How Efficiency Will Drive Growth, Create Jobs and Spread Wellbeing Throughout Society”, Kornelis Blok, Paul Hofheinz and John Kerkhoven, February 2015

those outlined in Article 7, which should be extended beyond its current end date of 2020 and strengthened to eliminate exemptions that weaken its overall target.

3. Reclassifying Energy Efficiency Investments

As set out in the Final Report of the expert Energy Efficiency Financial Institutions Group (EEFIG), under the current international accounting standards, energy services provided to governments/municipalities and companies to reduce their energy usage are accounted for as debt not operational spending. A shift to reconsidering how energy efficiency is accounted for when provided in this form of service contract would help build demand for this type of investment and scale up access to finance.

In addition, at an EU level, flexibility has been allowed in how Member States contributions to the European Fund for Strategic Investments score against government debt. We would ask that similar flexibility be extended to government investment in energy efficiency investment programmes, since they are a means of driving highly productive and growth friendly investment.

4. Strong 2030 Governance

As Europe shapes the energy efficiency legislation needed for 2030, the Energy Union must work to ensure that such legislation is smartly crafted and that it includes provisions for strong governance. In particular, the governance should be based on a clear and binding regulatory framework and accountability, to reduce the uncertainty that can otherwise hinder energy efficiency markets and investments.

It is also vital that the 2030 governance structure be developed under full co-decision between Parliament and the European Council, rather than following recent proposals which call for “pledge and review” or a “European-semester” approach. Such approaches threaten to bypass the rights of directly elected representatives of the European citizenry and lead to the re-nationalisation of energy policy—which runs counter to the spirit and goals of the Energy Union.

5. Increased Ambition for 2030 Energy-reduction Goals

The 30% energy reduction target for 2030 is supported by President Juncker (as a minimum) and by a good number of Member States, which reflects an overall popular support for energy efficiency. Unfortunately, it is not an ambitious goal and will produce a real-world impact of only 12% energy savings, leaving untapped an energy saving potential equal to the annual energy consumption of 17 European countries³.

A more-ambitious and binding goal of 40% energy reduction for the 2030 framework would result in energy cost savings of € 1–2 trillion between 2020 and 2030, and is achievable within the context of the Efficiency First policy and improved investment flows to efficiency. Such a goal should be embraced by the Energy Union as one of the pillars to achieve its success.

³ “Making sense of the numbers: what does the Commission’s 30% energy efficiency target by 2030 mean”. E3G, 2014

Summary

The creation of the Energy Union presents a tremendous opportunity to strengthen the European energy position, and the EU-ASE looks forward to its success. That success will require smart decisions and policies that should rest, in part, on five principals: adopting an “Efficiency First” policy compass, enforcing existing regulations, reclassifying energy efficiency investments, ensuring strong governance for the 2030 goals, and increasing the ambition of the 2030 energy efficiency target.

Moving forward with these principles will require bravery and boldness. But as President Juncker noted in his speech on 16 July 2014: “I want a European Union that is bigger and more ambitious in the big things and smaller and more modest on small things”.

The Energy Union, and the role of energy efficiency within it, is a big thing.

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About the European Alliance to Save Energy (EU-ASE)

EU-ASE was established in December 2010 by some of Europe's leading multinational companies. The Alliance creates a platform from which our companies (1E, Crupe, Danfoss, Ingersoll Rand, Kingspan, Knauf Insulation, Opower, Philips, Schneider Electric and Siemens) can join with politicians and thought leaders to ensure the voice of energy efficiency is heard from across the business and political community.

EU-ASE members have operations across the 28 Member States of the European Union, employ over 150.000 people in Europe and have an aggregated annual turnover of €70 billion.

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