

ENERGY EFFICIENCY DIRECTIVE

Position of the French electricity industry



September 6th 2011

Further to its March 2001 communication on changes to the 2006 action plan, the EU Commission has unveiled its draft Energy Efficiency Directive, to replace the 2004 "CHP" Directive and the 2006 "Energy Efficiency" Directive. UFE would like to make clear the position of French suppliers, network operators and generators on this document.

☞ NEED FOR A GLOBAL APPROACH COVERING BOTH CONSUMPTION AND GENERATION

UFE points out that the three targets set by the "Energy Climate" package (3x20) are closely linked and have a single, shared, climate-related objective: reduced CO2 emissions. Energy efficiency regulation is one way of achieving this. With this in mind, it is essential that the future directive not be restricted solely to measures aimed exclusively at optimizing the ways in which energy is used (the 'bottom of the chain'). It must also cover methods of electricity generation (the 'top of the chain'), as both of these areas are entirely interdependent.

☞ ENERGY EFFICIENCY CANNOT BE ACHIEVED WITHOUT ECONOMIC EFFICIENCY

In order to work effectively, European public policies on energy efficiency need to create an environment that stimulates demand side management efforts (building insulation, optimized heating systems, 'smart' energy use focused on periods of low demand and low carbon energy sources, etc.). To this end, UFE underlines the vital importance of adopting an approach to energy efficiency that goes beyond simple objectives set as a matter of principle, and which actually takes full account of the 'economic' aspect of the issue, for all parties. The future directive should therefore serve to lower the costs borne by both the industry and consumers, in order to stimulate the market for energy services. Above all, it should target energy efficiency measures that guarantee a realistic level of ROI.

RESTRICTIVE DEMAND REDUCTION TARGET (ARTICLE 6)

AN UNREALISTIC DEMAND

UFE is firmly against moves to force retail energy suppliers to achieve a guaranteed 1.5% annual reduction in energy demand equal to 1.5% of their sales (Article 6.1). It takes the view that:

- ✓ **The principle of a single mandatory rate for the whole of Europe fails to take account of the reality**, with the initial level of energy efficiency varying considerably between Member States
- ✓ **Indeed, the reduction stated (1.5%) is excessively high**, and does not take account of the fact that demand trends are heavily influenced by growth (the Commission proposes to base it solely on figures from the previous year), or the potential for substitutability between energy sources.

A more pertinent economic approach might target reductions in energy intensity (energy consumption per unit of GNP output), obviously taking into account the initial existing differences between Member States.

UFE also rejects proposals to place the regulatory and financial burden of compliance with this obligation by consumers on energy suppliers and distribution system operators alone.

"WHITE CERTIFICATES": AN INEFFECTIVE MECHANISM

The French experience of "*certificats d'économie d'énergie*" (energy efficiency certificates, France's equivalent of "White Certificates") has shown the limits of such an arrangement. In practice, the system:

- has proven administratively cumbersome and costly to implement;
- encourages a scattergun approach to measures, to the detriment of economic efficiency;
- is based on a system of tax credits that has placed a burden on the public finances, whilst at the same time contributing to a rise in the cost of services to consumers.

For these reasons, **UFE is opposed to the generalized introduction of an equivalent mechanism at European level.**

AN ECONOMICALLY EFFICIENT AND SOCIALLY FAIR ALTERNATIVE

Instead, UFE would like to see the introduction of an alternative scheme, developed around two key concepts:

- **An 'Eco Energy Efficiency' payment:** this would be based on building energy performance, energy consumption and progressivity over time.
- **An 'Eco Energy Efficiency' intervention fund:** funded by the payment, this would be used to help finance operations to improve social housing and the energy performance of businesses subject to international competition.

This solution would:

- **promote the most cost effective energy efficiency measures** (in order of economic precedence, thus helping to prevent the dispersion of measures);
- **encourage all parties concerned (owners and tenants alike) to adopt a more responsible approach** by making improvements to the energy efficiency of buildings, an absolute requirement for energy savings. UFE stresses that this proposal is entirely in line with the reasoning set out in Article 15-1, point a;
- **protect the most vulnerable consumers against rising energy bills.**

SMART METERS & CONSUMERS (ARTICLES 8; ANNEX VI)

A CONFUSED AND TECHNICALLY UNFEASIBLE CALENDAR

UFE welcomes the Commission's initiative, as set out in Article 8 of the draft text, to provide consumers with better information in order to promote improved demand management. It supports efforts to develop and generalize smart grids and meters throughout the EU, to optimize management of electricity consumption.

However, it stresses that the process of rolling out 'Linky' smart meters in France will not have been completed on January 1st 2015. It emphasizes that these meters are nonetheless essential for providing (via telemetry readings) all of the information the Commission wishes to see communicated to customers.

Consequently, **UFE believes it will be technically impossible to maintain the date of January 1st 2015 for the launch of the new bills** (Article 8.2). **It calls for this calendar to be brought into line with that determined by the third energy package, which sets the date for final rollout of smart meters at 2020.** UFE points out the vital need for operators to have a sufficiently stable regulatory framework in which to carry through their investments.

PROPER VALUATION FOR DYNAMIC TARIFFS (E.G. PEAK / OFF-PEAK TIMES)

UFE applauds the Commission's determination to promote dynamic time-of-use tariff schemes such as 'off-peak / peak times' or the 'Tempo' system. The provisions set out in Annex VI (point 1.1 – paragraph 3) will enable consumers to make savings by adapting their energy use accordingly. In doing so, they will also lighten the load on the networks during peak periods (when demand for energy is high). They may also help to reduce the use of power plants of the kind that generate most pollution (coal and oil-fired facilities).

INFORMATION FOR CONSUMERS NEEDS TO BE SIMPLIFIED

However, UFE believes the obligations regarding the production of statistics and reporting are too detailed, and that they will either prove technically impossible to satisfy, or at the very least will represent an excessive burden. UFE insists that this arrangement must be simplified. It is particularly concerned by the prohibitive costs that would be generated by:

- **the obligation placed on electricity operators to inform their customers at least once a year about potential savings through energy services.** It calls for this provision to be removed, or at least substantially amended;
- **the obligation to provide information on real-time consumption and the corresponding costs** (Annex VI – point 1.1).

CHP (ARTICLE 10; ANNEXES II - VII - VIII)

UTOPIAN DEMANDS ON NEW INSTALLATIONS

UFE considers the obligation requiring new installations (and installations undergoing substantial refurbishment and those whose license or permits are approaching expiry) of a capacity greater than 20 MW, **to be equipped with a cogeneration unit, to be excessive.** In any case, this provision cannot be applied to CCGT (Combined Cycle Gas Turbine) plants, where the heat generated is re-used and therefore cannot be resold.

Similarly, UFE opposes the proposal to restrict operating authorization solely for new plants of capacity greater than 20 MW **to those that are geographically located within zones in which they are able to sell the heat they produce.** In addition to being unrealistic, this measure could cause public nuisance, particularly in densely populated built-up areas. The measure takes no account whatsoever of acceptability by residents living in the areas concerned.

WELCOME FLEXIBILITY MECHANISMS, BUT IN NEED OF REFINEMENT

The French power industry believes the flexibility mechanisms described in paragraphs 10.4, 10.7 and 10.8 to be essential. These common sense measures will allow the **new CHP requirements to be limited solely to situations where they are economically viable and genuinely technically feasible.**

However, UFE takes the view that the conditions for applying them need to be made clearer. In their current form, they do not, for example, allow operators to **determine with sufficient certainty the economic conditions in which it may be possible to deviate from the general rule.** UFE therefore invites the European authorities to clarify the title of Article 10, in order to stabilize the legal framework and to secure investments in new generating installations.

GRID CONNECTIONS (ARTICLE 12; ANNEXES XI - XII)

FAIR TREATMENT FOR DIFFERENT ENERGY SOURCES

If the electricity market is to function smoothly and European energy efficiency targets are to be met, it is essential **for different energy sources to be treated equally. This is the only way to ensure that methods of generation are selected on the basis of sound economic reasoning, in order to promote the most cost-effective. It will help to guarantee the use of installations offering the greatest energy efficiency and lowest CO2 emissions, by giving them priority access to grids** (see remarks on Article 6 below).

With this in mind, **the French power industry opposes the proposal to grant high-efficiency CHP plants preferential treatment (Article 12 – points 5 and 6) when it comes to grid connections** (connection times, procedures, authorization regimes, auto-connection possibilities). These discriminatory provisions would serve to distort the European electricity market, whilst also setting back efforts to reduce greenhouse gas emissions.

SOCIAL PROVISIONS REQUIRE CLARIFICATION

Concerning Article 12.3, UFE understands the Commission's wish for specific provisions with social objectives. However, the terminology employed is obscure: the notions of "*components of schemes and tariff structures with a social aim*" imperatively require clarification.

CONNECTION WORK OPEN TO COMPETITION

Similarly, Article 12.7, which provides for the possibility of authorizing CHP operators to "*issue a call for tender for [network] connection work*" is unclear. Does this mean inviting multiple operators to compete for connection work, despite the fact that Directives 20004/17/EC and 2009/72/EC grant distribution system operators exclusive rights to manage the concessions under their responsibility? If so, Article 12.7 would contradict existing regulations and therefore give rise to serious legal uncertainties.

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