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EPSU STANDING COMMITTEE ON PUBLIC UTILITIES

**Position of the
European Public Service Union (EPSU)
on the Commission of the European Communities'
"Proposal for a directive of the European Parliament and of the Council on energy
end-use efficiency and energy services" (COM (2003) 739 final) dated 10.12.2003**

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The EPSU regards the proposal that has been presented as suitable for closing the current gap in the regulation of our deregulated energy markets due to the fact that certain customers, in particular, small and medium-sized industrial enterprises and households, have been exempted from legally mandated improvements in demand-side energy efficiency. Those sorts of demands represent major contributions toward achieving the most important goals of the EU in the energy sector, improving the reliabilities of energy supplies, inexpensive energy supplies, and environmental and climatic protection. In order to compensate for the impacts thereof on the economically disadvantaged while simultaneously exploiting the potentials for improving efficiency available there, special no-charge programs should be instituted for those groups.

The aim of the proposal

The aim of the proposed directive is promoting rational demand-side energy utilization ("promotion of end-use efficiency"). Numerous experts have confirmed that the potential energy savings involved are substantial and that we have thus far been unable to take full advantage of them. The Commission estimates that total European end-use energy consumption exceeds that justifiable on purely economic grounds by around 20 % (cf. Section 3.1 of the "Explanatory Memorandum"), a rather conservative estimate in view of potential technical energy savings of around 40 % (cf. the Commission's "Green Paper" entitled "Towards a European Strategy for Energy Supply").

The proposed directive is thus intended to create a "framework to promote the market both for energy services and for energy efficiency measures" in the case of end users. In the EPSU's opinion, that is urgently necessary. Deregulation of the EU's energy markets has thus far been organised around promoting competition among the various sources of energy and attaining the lowest kiloWatt-hour rates, and has thus led to an abbreviated portrayal of energy markets. This fixation on the supply side is one of the factors that have contributed to the elimination of more than one-quarter of all jobs in the energy sector in those countries that have rapidly introduced deregulation. It has also led to economic misallocations and conflicting climatic and environmental goals, since the incentives to reduce emissions are inadequate; on the contrary, the signal of lower energy prices is an inducement to neglect energy efficiency. The task at hand is promoting competition "also between investments in energy end-use efficiency, on the one hand, and investments in energy supply, on the other" (quote from the "Explanatory Memorandum"). The EPSU believes that actions on the part of politicians are required if that is

to occur, particularly in view of the fact that numerous approaches (e.g., demand-side management and least-cost planning) for systematically promoting rational energy utilization that already existed in most EU-countries were abandoned in conjunction with their deregulation of the energy industry.

To the labour unions, those sorts of approaches are of great importance because they may lead to more jobs being created. A study conducted by the Prognos Institute, Basel, under contract to the German Ministry for the Environment, in 2000 stated that the number of net, additional jobs created in 2020 by an ambitious program aimed at improving energy efficiency would be 200,000 in Germany alone. Extrapolating that figure to the entire EU indicates that creation of a total of around one million additional jobs may be assumed. Included thereunder are many jobs for unskilled workers, for example, jobs in the construction industry, as well as jobs requiring higher qualifications in conjunction with energy counselling, contracting, and consulting, or jobs in the fields of mechanical engineering and systems engineering. Improving energy efficiency also means lower total energy costs for industry and households, and thus greater purchasing power.

The Commission's "Green Book" on strategies for improving the reliabilities of energy supplies regards the EU's strong dependence on imports in the energy sector as a problem area. Since greater energy efficiency results in lower utilizations of sources of primary energy, dependence on imported energy will be sharply reduced. Improving energy efficiency thus makes a major contribution to improving the reliabilities of energy supplies.

Reductions in utilizations of sources of primary energy resulting from improvements in energy efficiency will yield less environmental pollution, and, in particular, reduce emissions of gases affecting the earth's climate. Although the Commission had previously assigned those goals higher priorities in its existing directive on emission trading, that directive explicitly stated that its sole purpose is reducing the impacts of gases affecting the earth's climate emitted by certain branches of industry and power plants, which together account for 55 % of such emissions. That directive is essentially supply-side oriented. The proposal for a directive that has been presented represents a suitable basis for initiating specific measures for reducing emissions of greenhouse gases by the other classes of emitters, households, small and medium-sized industrial enterprises, and vehicular traffic, whose emissions of greenhouse gases continue to increase, in parallel therewith. Since the emitters involved form a rather heterogeneous set of end users, a demand-side approach will be required in their case. That is precisely what the proposal does. It thus makes a major contribution toward achieving the EU's climate-protection goals and sustained growth in the energy sector. However, it must be guaranteed that all branches of industry, including those branches of heavy industry, such as the chemical industry, that have been exempted from emission trading under the directive on emission trading, will be obliged to comply with the stipulations of the energy-efficiency directive as well.

In the electric-utility sector, in particular, the proposed directive offers support from the demand side for power-plant operators, who are subject to emission trading. Relative reductions in electric-power consumptions will make it simpler for electric utilities to comply with their allocated emission limits, or reduce the nominal amounts of emission rights they will have to purchase. The latter will presumably be available at lower prices, since total demand will be on the decrease.

The action plan

The proposed directive

The proposal foresees that EU-countries will be subject to quantified obligations to increase energy efficiencies in those segments of their energy markets that have been exempted from emission trading. The method adopted seems practicable and accomplishable without major bureaucratic efforts, since it is based on data, most of which would have to be compiled in conjunction with compilations of general energy statistics anyhow.

The method is goal-oriented. It leaves most of the details of those measures to be undertaken up to the individual member countries, but in accordance with the subsidiary principle. Member countries may thus flexibly and independently define optimally suited measures, based on their own energy infrastructures, which, in view of the differing energy infrastructures in the respective member countries, will be a reasonable approach, since it further reduces the bureaucratic efforts involved, while simultaneously reducing transaction costs.

The method is flexible. It allows increases in energy consumptions, since obligations to improve energy efficiency are determined in proportion to actual annual energy consumptions. It thus has a doubly beneficial effect on the respective national economies: economic growth will not be hindered, even if it entails rising energy consumption, as in the case of manufacturing industries. Conversely, economic growth is implied, since the measures to be undertaken in the area of energy services created additional added value, thereby creating jobs locally, and simultaneously reduce dependence on imported energy, which will tend to increase purchasing power.

Suggestions regarding, and remarks, on individual articles

Taking its generally positive assessment of the proposal as a starting point, in the following, the EPSU submits its proposals for changes to individual articles thereof in order to improve the chances of achieving the directive's goals and/or enhance the proposal's practicality:

Article 4: The key obligation of the proposal, increasing energy efficiencies in the EU-countries by 1 % annually, can certainly be accomplished throughout all those market segments mentioned, and within the stated time frame, using existing, tested, usually also efficient, technologies. In the "Explanatory Memorandum," the proposal correctly speaks of a "realistic minimum level for energy efficiency improvement for the EU" that can be reliably maintained, in the case of an, as stated therein, average benefit/cost ratio for the necessary investments of 4:1.

The Commission obviously has assumed that the directive will have an initial effect that will, by creating a market for energy services, along with its mechanisms and players, be of service, and might develop a momentum vastly exceeding the intended minimum obligation. The EPSU regards that assumption as justified. Nevertheless, in view of the great economic, ecological, and social, benefits of a rapidly rising energy efficiency, the EPSU proposes that the minimum obligation be increased for certain sectors. (The proposal itself foresees that for the public sector under Article 5.). That would be justified, particularly if two preconditions were met:

- Substantial, unexploited, economically exploitable, prospective measures for improving energy efficiency were available EU-wide. Those measures might, in particular, be building management and certain technical processes, such as compressed air, or motors and drives.

- It was particularly urgently necessary that efficiency-improvement measures be carried out. Those measures might, in particular, be measures in the vehicular traffic area, which continues to exhibit rising consumptions, and thus rising emissions of greenhouse gases.

Article 5: The EPSU explicitly welcomes the fact that the goal for the public sector with a 1.5 -% increase in energy efficiency is more ambitious than that set for the general sector. The EPSU and its member unions have repeatedly pointed out that the public sector must serve as a model in relation to measures for improving energy efficiency and introductions of renewable sources of energy. That is also due to, and in view of, the shortages of funding within the public sector, since investments in economic measures aimed at improving energy efficiency have already given the public sector greater freedom in negotiating medium-term financing. Last, but not least, there are opportunities for employees working in the public sector to become actively engaged in climate and environmental protection, while simultaneously contributing to alleviating cost pressure on its employees. The slogan is: "Cutting energy costs is better than cutting personnel costs."

Article 6: The obligating of electric utilities and/or energy retailers to supply full lines of energy services and offer them to all customer groups proposed under (a) is appropriate and will lead to achievement of the set goals. The EPSU particularly welcomes the fact that oil dealers have also been subjected this obligation. The free-of-charge energy audits by energy suppliers "as long as 5 % of them are not covered by energy services" will cause an necessary initial ignition, and, assuming that the qualities of the services involved will be the same, will not affect competition, since it applies to all suppliers.

However, the EPSU regards (b), which obliges energy suppliers to "refrain from any activities that might impede the delivery of energy services, energy efficiency programmes and other energy efficiency measures or hinder," etc., as not very practicable, due to its generality. Advertising promoting electricity or gas utilization certainly cannot be construed as falling thereunder. There remains the matter of which particular measures are to cease.

In conjunction with Articles 7 and 12, which also are formulated in rather general terms, the EPSU proposes that a catalogue of positive measures that companies must offer in conjunction with energy audits be incorporated into the proposal. The danger that certain energy suppliers would obtain competitive advantages is due to the fact that, although individual energy suppliers might formally meet the requirements of the directive through inexpert, erroneous, energy audits, which would be in conflict with their goal, would also be counteracted. The EPSU foresees that danger arising, particularly in the case of smaller suppliers of single sources of energy, e.g., petroleum, that have no prior experience with energy audits and no associated customer-loyalty programs.

In particular, the EPSU regards preparation of a catalogue of services specially directed at the economically disadvantaged (low-income families, families with large numbers of children, unemployed persons, students, pensioners) as essential, since they will be particularly hard hit by any increases in distribution rates due to programmes of that type (cf. below, in relation to the comments on Article 10). On the other hand, some of those groups have particularly high potential resistances in relation to opportunities for benefiting from the programmes being offered, in particular, high resistances in relation to information on them. All of these services for the economically disadvantaged should be free of charge.

Article 8: How important qualification, certification, and accreditation of suppliers of energy services are must be emphasized. The EPSU thus welcomes the fact that they will be obliged to provide suitable qualification, accreditation, and/or certification systems to all market participants

that provide energy services in the interest of maintaining high levels of technical competence among those personnel involved and maintaining the quality and reliability of the energy services offered. That will also guarantee that the additional positions created in the energy field will be filled by sufficiently qualified personnel, and that those personnel will have qualified educations and training.

Article 10: The EPSU supports the opportunities for refinancing utilities' investment costs on the end-user side via distribution rates. That is justifiable based on the principle of allocating those investment costs to those who caused them, insofar as end users, who benefit from lower energy charges due to declining consumptions of energy services should also have to pay the additional expenses incurred. In order to avoid disadvantaging individual customer groups due to the fact no adequate services are being kept available for them, it will, as has been foreseen, be necessary to keep a broad range of services available for them in order that every customer group will actually be able to benefit therefrom. A number of special services for economically disadvantaged customers must be offered free of charge (cf. above, in relation to the comments on Article 6).

Article 11: The EPSU welcomes the fact that the proposal allows setting up national funds for carrying out energy-efficiency programmes. These should be made available to programmes with high transaction cost or higher risk sectors, which will guarantee that complex, ambitious, economic measures aimed at improving energy efficiency may also be carried out. However, what is specifically meant by "high transaction cost or higher risk sectors" should be either more clearly defined or this restrictive formulation should be deleted, since funds of that type are usually only employed when high resistances to certain measures have to be overcome anyhow.

Annex I: The formulation employed in No. 3, "Energy savings in a particular year that result from energy efficiency measures initiated in a previous year not earlier than 1991 may be taken into account in the calculation of the annual savings." might be misinterpreted. That energy savings that were obtained in a preceding year and continue to be effective during the period of validity of the directive may be taken into account should be explicitly excluded. The corrected formulation might read: "*Additional* energy savings in a particular year that result from energy efficiency measures initiated in a previous year not earlier than 1991 may be taken into account in the calculation of the annual savings."

Annex III: Although the catalogue of prospective energy services presented there is comprehensive, it should be clearly defined that "cost-effective" refers to all costs, including so-called "external costs." In relation to the vehicular traffic area, it is significant and correct that measures, in particular, also measures aimed at greater utilization of certain carriers or transferring traffic to public carriers, and not just technical measures, have been included. The catalogue should be supplemented by a number of special services for the economically disadvantaged that are to be supplied free of charge. Conceivable would be, for instance, something like special information programmes or programmes specially directed at that group aimed at replacing inefficient household appliances.

Annex IV: The guidelines for measurement and verification of energy savings appear to be comprehensive and fully justified. However, in contrast to what was proposed in the "Explanatory Memorandum" under Section 3.2, measures due to energy taxes and building codes should not be taken into account because those sorts of measures are already covered under the respective guidelines on energy taxes and buildings. Whether a committee should be appointed to scrutinize any differences among individual member countries and submit suggestions regarding how they might be overcome should also be considered.