ENERGY BETWEEN DANUBE AND CAUCASUS

THE ROLE OF RENEWABLE ENERY AND ENERGY EFFICIENCY AS A KEY ISSUE FOR ECONOMIC DEVELOPMENT, 28-29 APRIL 2011, VIENNA

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Check against delivery!

A POLICY FRAMEWORK FOR ENERGY EFFICIENCY MEASURES IN SOUTH EAST EUROPE

Further deepening of European integration is unthinkable without full implementation of the European integrated policy on climate and energy. Consequently, South East Europe as a whole and the countries in the Western Balkans with a European perspective in particular**,** would not be able to participate fully in the European integration project without a consistent drive to assimilate the EU approach to energy and climate.

Completing the internal energy market, achieving energy savings and promoting low-carbon innovation are the main vectors to reach the objectives of competitiveness, sustainability and security of supply.

The Bulgarian experience:

The Ministry of Economy, Energy and Tourism (MEET) of Bulgaria has issued a report on the implementation of the First National Action Plan on Energy Efficiency for the period 2008 – 2010. This is the first in a series of three plans up to 2016. By then Bulgaria should reach its national indicative target for savings of fuels and all types of energy which is estimated at 9% of the average volume of end-use energy for the period 2001-2005. The target figure is 7291 GWh. An intermediary indicative target of 2430 GWh (or 3%) has been set in the First Plan.

The estimate on the indicative national target is based on energy savings reported to the Bulgarian Agency for Energy Efficiency. These are so called *claimed* savings. The Bulgarian methodology requires verification and analysis of the statements in accordance with legislation in the Energy Efficiency Act. For energy savings which have been verified and proved the Executive Director of the Agency for Energy Efficiency issues certificates.

Bulgaria, a country with an inherited high level of energy intensity, has managed to reduce it to 57% in a period of 10 years. In 2008 the Bulgarian economy has utilized only 57% of the energy used in 1997 to produce the same volume of gross domestic product.

The “permitted” energy efficiency measures under Bulgarian legislation should comply with the following requirements: their time-frames for capital return should not be longer than the duration of the respective measures; they should lead to savings of primary energy resources; they should lead to reduction of greenhouse gas emissions; they should not diminish the quality of the environment and they should not lead to worsening of sanitary and hygienic norms.

There are at least 13 different financial and lending facilities and programmes, mostly of European origin, which provide financing to EE (and RES) projects in Bulgaria.

In diffidence for the host country Austria, which has provided a grant, an example will be given with the Bulgarian Energy Efficiency Fund (BEEF). It has been operating for 7 years. It was established with grants from the World Bank (10 mln. US dollars), the Government of Austria (1,5 mln. Euros), the Government of Bulgaria (1,5 mln. Euros), as well as several private Bulgarian companies.

BEEF has the combined capacity of a lending institution, a credit guarantee facility and a consulting unit. It provides technical assistance to Bulgarian companies, municipalities and private individuals in developing energy efficiency investment projects and then assists their financing or co-financing or plays the role of a guarantor with other financing institutions. It eyes and supports projects or a package of projects which are in the range of 15 000 Euros to 1,5 mln. Euros. Its contribution to energy efficiency in public buildings in municipalities is noteworthy.

The MEET report on the First National Action Plan on Energy Efficiency is transparent and contains criticism where it is due. *The following shortcomings have been identified:*

- a not sufficiently committed attitude by state institutions engaged in the implementation of the First Action Plan: out of 7 only four have complied with the requirement to report to the Agency for Energy Efficiency;
- an absence of individual plans for energy security: less than 4% of the legal persons involved have addressed such plans to the AEE;
- there have been many incorrect entries in the reporting forms of the municipal and regional administrations.

No particular administrative barriers or barriers for authorization of Energy Efficiency projects have been observed in Bulgaria. Difficulties have arisen in getting authorization for RES projects, for example for ecological reasons or in land acquisition. The new Bulgarian Law on Renewable Energy aims to regulate these and other deficiencies.

Based on recommendations and lessons learnt in the implementation of the First National Action Plan on EE Bulgaria is in the process of elaborating its Second National Plan to be submitted by end-June 2011. An important feature is the introduction of new measures for reaching the national indicative target to 2020 which will cover not only the overall end-use energy consumption but the production, transmission and distribution of energy as well. Buildings with zero or low energy consumption have also been included in the target. Many of the new long-term measures in the Second Plan will be of a nature that will rate them as RES measures.

The Government draft of *Energy Strategy of the Republic of Bulgaria*, which has just been submitted to Parliament, rates Energy Efficiency "as the highest priority in the national energy policy". Its goal is to improve energy efficiency by about 25% to 2020 which will amount to saving more than 5 mlntoe of primary energy in regard to 2005 – a substantial goal!

For the financial period 2014-2020 Bulgaria plans to use a certain amount of Euro-funds on a concept called **"Smart city – a model of sustainable local development". P**rojects under this concept are most suitable for streamlining.

A crucial role of the Energy Community for streamlining on a regional basis in SEE:

In accordance with Article 35 of the Treaty at end of 2009 the Ministerial Council adopted Measures to foster energy efficiency, taking account of their "advantages for security of supply, environment protection, social cohesion and regional development". In an Assessment by the Energy Community Secretariat the Energy Efficiency Actions Plans (NEEAPs) of the Contracting Parties have been analyzed to reveal the following main characteristics:

Overall, NEEAPs introduce a balanced portfolio of policies, instruments and programmes: combining regulation, voluntary agreements, market-based instruments, financing and fiscal tools, and information measures.

Albania, Croatia, (Former Yugoslav Republic of) Macedonia, Montenegro, and Serbia identify the administrative body/bodies responsible for implementing either the entire NEEAPs or on a measure-by-measure basis.

Most NEEAPs specify legislative acts, on which the measures are based. However, occasionally there is only an indication of the legal act, without any clarification as to the content of the relevant provisions (e.g. the NEEAPs of the Albania, Montenegro, former Yugoslav Republic of Macedonia, Serbia and UNMIK, Kosovo). Albania indicates budgetary requirements by measure, without breaking these down into state budget, municipal budget, and other resources. Macedonia has made a very detailed estimation of costs and financial contributions.

Many Contracting Parties place a very strong focus on state subsidies or grants: while for some sectors and technologies these may be justified, extensive reliance on subsidies may alter market signals and discourage the formation of a market for energy services. However, little action has been identified to create innovative market-based financing vehicles for end-use energy efficiency, even less so with the involvement of financial institutions.

All Contracting Parties have introduced a 9% national indicative energy savings target for 2018 calculated in line with Annex I of the Directive (with exception of Serbia). Bosnia and Herzegovina, Moldova, and Ukraine are not included in this Assessment.

The majority of NEEAPs contain public procurement measures. However, it is not always clear if these measures contain concrete requirements, as called for in Annex VI of the EU Directive.

To address the deficiencies identified during the assessment of the first NEEAP harmonisation of the following is recommended by the Energy Community Secretariat: (a) the level of detail required when describing measures and estimated or measured savings; (b) reporting of energy savings according to harmonised measurement principles. A proposal for a Commission Decision on harmonized savings measurement principles is currently being drafted by Commission services, assisted by the Regulatory Committee as required by Article 15(2). Furthermore, Commission services has also drafted a template and common guidelines for reporting, which will be discussed with Contracting Parties in the Energy Efficiency Task Force meetings in 2011.

A move away from NEEAPs characterised by fragmented, stand-alone measures towards coherent packages of policies and measures aimed at the various end-use sectors is needed.

Contracting Parties should adopt a more strategic approach to achieve integration of energy efficiency and transport policies. Regional and local administrations have an important role to play. Contracting Parties should scale up their efforts to capture the energy saving potential at local level in their NEEAPs by involving authorities and market actors at local level.

Integration with other reporting obligations, especially those related to specific energy efficiency policy measures and measures to reduce green house gas emissions, e.g. alignment of reporting periods, streamlined methodologies on calculation of energy savings and reduction of green house gas emissions, would reduce the current reporting burden upon Parties.

The ECSecretariat is committed to facilitating further development and improvement of the NEEAPs, and has provided bilateral feedback on each NEEAP. The Secretariat recognises the great potential that NEEAPs could play in improving the focus on energy efficiency and in streamlining Contracting Parties' efforts supporting citizens, by empowering them as consumers to make well-informed energy choices, and in encouraging market actors.

The wider market perspective:

According to Paul Hunt, an energy expert, there are three separate categories of energy infrastructure investment – each with their own configurations of risk and uncertainty. First, there is a requirement for investment to facilitate the integration and efficient operation of the electricity and gas markets – irrespective of the climate change agenda. Secondly, there is a requirement for investment in RES and abatement in line with the climate change agenda. And thirdly, there is a requirement for investment in additional infrastructure to secure the efficient integration of renewable outputs in the energy supply system.

It would seem both futile and damaging to begin devising either "market-based" or public policy mechanisms to encourage investments in the second and third categories while efficient market mechanisms have not been developed for investments in the first category. This is simply putting distortion upon distortion and subsidy upon subsidy (either open or hidden) – with the resulting inefficiencies, rent capture and deadweight costs being borne by all final consumers.

While regional markets in other parts of Europe may be suffering partially from the above weakness, it is in South East Europe where regional energy infrastructure development and market integration have to take place on a systematic basis for all other energy policy mechanisms to work. If for structural reasons the countries in South East Europe cannot "wait" for this fundamental sequence to occur, then they, as well as the European Commission and other institutions involved, should develop some scheme of coordination and interplay between the three separate categories of energy infrastructure investment mentioned above. Gas and electricity interconnections are vitally necessary. It is also time for South East Europe, both on a national and regional basis, to address more ambitious goals like smart grids and metering and new technologies and methodologies for producing, transmitting, storing and consuming energy.

At the initiative of the Energy Community for SEE and under the auspices of the Bulgarian Minister of Economy, Energy and Tourism Sofia hosted a regional conference on 30 November 2010 which adopted a Declaration on the elaboration of a ten-year energy infrastructure development plan. This is the platform on which further coordination, streamlining and electricity and gas market integration should occur with the involvement of all regional countries and the European institutions.

Thank you.