

## SMDC: POSITION PAPER ON SUSTAINABILITY AND ENERGY EFFICIENCY

### 1. Introduction

The European Commission's 'package' of announcements on 10<sup>th</sup> January 2007 puts forward ambitious proposals related to sustainability and energy efficiency. The two subjects are closely linked. Reduced energy consumption, resulting from improved energy efficiency in power and heat generation or other forms of gas utilisation, is a key contributor and potentially a pre-requisite for sustainable energy use.

This paper sets out Eurogas's position on a range of issues arising from this aspect of the package. The position can then form the basis of Eurogas's contribution to further discussion of specific proposals as they come forward.

### 2. Overview of Eurogas position on Sustainability & Energy Efficiency

Eurogas is committed to the realisation of a secure, sustainable and competitive European energy market. Eurogas is confident that within that market, gas will remain the fuel of choice for end-use in Europe' and its market share will grow, including its use for electricity generation, as a consequence of its secure supply, the relatively low level of CO<sub>2</sub> emitted and gas's clean combustion characteristics.

Eurogas wholeheartedly endorses the Commission's emphasis on intensifying efforts to combat climate change. New or improved technologies for electricity production, energy efficiency and utilisation offer sustainable ways of meeting Europe's future energy needs. Europe's energy policy must create the framework for a diversified mix of environmentally friendly fuels, within a competitive market and a stable policy context.

Particular care must be taken in devising mechanisms to help establish new energy technologies, so that they do not unduly distort competitive energy markets. Member State governments should resist pressure for 'technology picking' and/or the introduction of new and potentially overlapping specific policy obligations.

Eurogas fully supports the EU Emissions Trading Scheme as the key part of the EU's strategy for reducing emissions from industry and from other sectors, within a global context. Business needs a stable and predictable EU ETS framework to underpin the long-term value of carbon. An urgent priority is to set out the future level of ambition for the scheme post 2012.

Energy efficiency has a key role in responding to the challenge of climate change. Eurogas members are already active in a range of energy efficiency schemes and their relationship with customers means they are well-placed to support initiatives in this area. However intervention in the market must be consistent with competition/market principles and structures and in the longer term should link to wider carbon-based trading schemes.

### 3. Renewables

Eurogas recognizes the importance of encouraging the development of renewable sources of energy, so that they can play their part in reducing greenhouse gas emissions.

Faced with the urgency of the climate change threat, we understand the Commission's proposal for a binding (rather than indicative) overall target for renewables, which can reduce import dependency and so assist security of supply. Yet even at 20%, the target is extremely challenging, as will be seen when the National Action Plans are developed.

Eurogas sees the priority being to find ways of meeting this and other targets which do not distort the market and which avoid negative consequence at EU or Member State level. An example of the latter would be the risk of monocultures resulting from inappropriate expansion of biomass.

Eurogas advocates a flexible approach and supports the principle that each Member State should be free to decide the best renewable energy mix for its own circumstances. We do not believe there is any point in specific EU targets for each sub-sector (heating & cooling, electricity production etc), although Member States may choose to have such targets within their national plans.

To avoid a number of conflicting support schemes for renewables across the EU, it would be more effective and coherent with internal energy market objectives for a single long-term EU target for CO<sub>2</sub> reduction to be set, allowing Member States to choose their own energy mix, rather than setting individual targets for different fuels and activities. This would allow the necessary flexibility in approach.

The Commission's proposals acknowledge the importance of facilitating the integration of renewable energy sources into EU energy systems. This will help create a framework which attracts investment and encourages new technologies. The aim should be to ensure a consistent investment climate and protection of investment already made. Changing the rules damages confidence, destabilises the market, increases investor risk and discourages new capital expenditure commitments.

Eurogas believes that biogas has a ready role in the provision of energy from renewable sources, not least because of the possibility that this can be effectively distributed via pipeline gas systems.

Eurogas accepts that within the overall aim of CO<sub>2</sub> reduction, it may be appropriate to have short-term measures that support the development of renewables. However, once the new technologies are established and the true value of carbon is more certain, Eurogas believes the energy mix should be primarily determined by the market, rather than by specific or binding targets. Such targets introduce distortions to the market, particularly when they overlap with other carbon reduction mechanisms. Eurogas therefore believes that as far as possible any interim support schemes should be harmonised and converge to a fully consistent and market-based EU-wide approach.

#### **4. Emissions Trading**

Eurogas fully supports the EU Emissions Trading Scheme as the key part of the EU's strategy for reducing emissions from industry and other sectors. Business needs a stable and predictable EU ETS framework to underpin the long-term value of carbon. The success of the ETS is critical, and building the price of carbon into the power price provides support for all low carbon technologies.

An urgent priority is to set out the future level of ambition for the ETS post 2012. Eurogas sees this including linkages to carbon reduction schemes outside the EU, with the aim of moving progressively towards a global value of carbon.

Eurogas supports measures to improve the effectiveness of the ETS and ensuring it provides a market value for carbon. For the ETS to have a proper effect on investment decisions, it will need to be organised in significantly longer trading periods than hitherto, and a higher degree of transparency will be needed. Where practical and material, Eurogas is supportive of broadening the scope of the scheme post 2012 to include other sectors and gases; however, this must be managed carefully and well signalled to avoid undermining the carbon market, ensuring that it does not add unduly to the administrative burden of suppliers and energy users.

Particular care must be taken in devising mechanisms to help establish new energy technologies, so that they do not unduly distort competitive energy markets. Member State governments should resist pressure for 'technology picking' and/or the introduction of new and potentially overlapping specific policy obligations.

The allocation of allowances in the present scheme is a particular concern. Eurogas supports the use of harmonized allocation criteria at EU level, based on benchmarking, and avoiding distortions of competition in individual sectors and markets within the EU.

To mitigate the adverse impacts of free allocation, Eurogas supports the auctioning of allowances, subject to there first being proper impact assessment of the effect where activities or sectors face international competition. Again, care should be taken to avoid discrimination or market distortions arising in individual sectors or between Member States.

With regard to the revenues from auctioning, consideration should be given to using these to stimulate research & development and support the use of carbon-reducing technologies and energy efficiency.

## **5. Carbon Capture & Storage (CCS)**

The proportion of fossil fuels in the generation mix will depend greatly on how quickly potential new carbon capture and sequestration technologies can be brought into play. CCS will also require some further adaptation of the legal framework for CO<sub>2</sub> storage.

Eurogas does not favour specific CCS obligations or other mandatory measure. By building the price of carbon into the power generation cost, the EU ETS will assist the technology, should it prove viable.

However CCS may need some transitional funding in order to become commercially viable. Any financial support should be geared very specifically towards bringing the technology to market, for example capital grants for demonstration plants.

## **6. Energy Efficiency**

Eurogas welcomes the European Commission's Action Plan on Energy Efficiency. Demand reductions are needed as part of the response to the strategic challenge of climate change. However, achieving these reductions is a very real challenge. In many cases, consumers have been reluctant to invest in energy efficiency measures such as increased insulation.

A common approach therefore to encouraging energy efficiency is through fiscal incentives and through government subsidies; both can be used to stimulate domestic consumer demand for energy efficiency measures. Public procurement guidelines, higher building standards and appliance labelling are also helpful in stimulating investment by companies offering energy efficiency products and services.

Members of Eurogas are already active in the promotion of energy efficiency and in the education of customers in appropriate behaviour. In some cases they are also involved in the direct provision of energy efficiency measures.

Eurogas looks forward to the Memorandum of Understanding to be developed by the Commission and CEER setting out guidelines and a code of conduct on improving energy efficiency in all sectors. This will be helpful in clarifying what is expected of energy suppliers and others, and the regulatory framework within which this can be delivered.

Eurogas believes the aim should be to minimise intervention in the market and ensure it is proportionate and consistent with competition/market principles and structures, as far as possible. Any industry schemes and arrangements should be non-discriminatory and clearly

targeted on particular policy objectives. The results must be measurable, so that the efficiency/effectiveness of schemes can be assessed and any necessary modifications made.

Since suppliers have direct contact with the customer, Eurogas believes the provision of energy services is generally best handled within this relationship. If obligations are to be placed on suppliers, suppliers should have maximum possible flexibility in the way they can meet their obligations, thus encouraging innovation and competition between suppliers in schemes offered.

- o White Certificates

Some Member States have introduced 'white certificate' schemes, which place obligations on the energy industry. The nature of these schemes varies widely. In Italy, for example, the liberalisation law puts an energy efficiency obligation on distribution system operators, with fixed national targets for each. In France and Great Britain, the obligation is on suppliers. Schemes generally have defined rules by which energy efficiency projects are assessed, and so enable them to qualify for white certificates (or equivalent). In Belgium, there is a scheme for electricity DSOs aimed at reducing electricity used, but this is not linked to white certificates.

If a white certificate scheme is to be introduced at Member State level, it should be consistent with market principles and as simple as possible, since complexity adds to the cost of administration. However Eurogas is concerned that the variety of certificate-based and other schemes could encourage different behaviours and result in different implicit prices for carbon.

Eurogas notes that ERGEG intends to consider the possibility of an EU-wide white certificate scheme. We are monitoring progress with existing schemes in Member States and are not convinced that a scheme at EU-level is justified. If there were to be such an initiative, it should include a harmonised measurement system for energy efficiency improvements, although permitting maximum flexibility in the way it is implemented at Member State level.

- o Trading

In France and Italy, there is also a traded market for white certificates. In Italy, this is operated by the electricity market operator, which issues the white certificates, and both distribution system operators and energy efficiency companies can participate in this market, and suppliers also have the option.

Whether or not white certificates are traded, Eurogas believes that in the longer-term consideration should be given to linking domestic energy efficiency to a carbon-based trading scheme by allowing suppliers, for example, to improve energy efficiency in domestic properties and trade the carbon savings within any established schemes.

The existence of a visible carbon trading price in exchange for implementing energy efficiency measures would potentially attract new entrants into the energy efficiency market who could bring new technologies and innovative ways of improving energy efficiency into the domestic market. It would also encourage revenues available for efficiency measures to be targeted where they will be most effective.

- o CHP & micro-CHP

Advanced gas technologies such as CHP and micro-CHP, together with other instruments in the Energy Efficiency Action Plan, may also play a useful role in improving the efficiency of energy distribution as well as enhancing utilisation efficiency.

Micro-generation has the potential to deliver major improvements in household energy efficiency, although practical issues remain. For domestic combined heat and power boilers and domestic wind turbines, there may also be regulatory barriers to be addressed around the installation of micro-generation equipment and around the production and metering of surplus electricity.

Eurogas looks forward to commenting later this year on ERGEG's proposals for decentralised generation, and in due course on possible minimum efficiency requirements for micro-CHP.

- o Building and appliance standards

Recent years have seen the progressive raising of building and appliance standards, which has encouraged the rapid deployment of condensing boiler technology. Tougher building regulations have also been very successful in increasing standards in new and in some cases existing dwellings.

Eurogas notes that the Commission proposes the extension of the Energy Performance of Buildings Directive. To ensure the potential of higher building standards is fully realized, it will be essential that the necessary controls are in place to ensure full compliance. Similarly it will be essential to ensure proper implementation of other directives in this area, including monitoring and enforcement of eco-design requirements and the labelling scheme.

## 7. Conclusions

Eurogas believes it is essential that the policy framework for sustainable energy ensures gas can play a full role alongside newer technologies, so as to also optimise the energy mix in environmental terms.

We recognise that specific targets and interim support measures for new technologies may be required, but once the technologies are established, the energy mix should be primarily determined by the market, rather than by specific targets. Differing national situations mean that Member States should have maximum flexibility in the way in which they are able to achieve any short-term targets set.

Eurogas fully supports the EU ETS, and the steps currently being considered to improve its effectiveness, both in the current phase and post 2012. Business needs a stable and predictable framework to underpin the long-term value of carbon, which in turn will encourage the correct market signals in generation and energy utilisation.

Eurogas members are already active in the promotion of energy efficiency. Financial incentives, building standards and labelling also have an important role to play. Any regulatory initiatives must be low in administration costs and carefully designed to be consistent with the liberalised market framework.