Energy solutions for a changing world

Obligations and Funding

The Policy Mix Needed for Efficiency Upgrades

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Why Efficiency Obligations?

- **Proposed EE Directive properly aims to overcome market barriers and market failures:** Europe underinvests in Energy Efficiency (EE)
- **A full suite of EE interventions is required**: codes and standards, consumer education, financing, tariff reform, and EE obligations
- **Consumers need help to invest** – technical, financial, delivery
- **A logical and stable source of revenues: ECOs put the responsibility for efficiency on the actors in the sector directly connected to the purchase and sale of energy**
  - Similar to environmental obligations in energy markets, such as EU ETS Certificates or Renewables Obligations
- **EE Obligations also lead to new JOBS and LOWER BILLS :**
  - **20% energy savings by 2020 saves (net) 78 Billion Euros per year** (Ecofys-Fraunhofer 2010)

Positive Global Experience with EE Obligations on Energy Suppliers

- Australia: 3 States -- New South Wales, Victoria, South Australia
- 24 US States – nearing $5 Billion annually
- Europe: now 5 Member States/Regions
- Poland, China, Brazil, Canada, others are working on these too.
- Best programs include special focus on:
  - **Social housing and fuel-poor HH, and**
  - **Deep renovations and long-term savings**

Stable & Adequate Funding is Essential

- GOAL -- How to finance much larger & deeper retrofit programs?
- **Public and Obligation FUNDING** = 25-30%; **Private FINANCE** = 70-75%.
- But for low-income HH, PUBLIC fraction is much higher.
- **Adequate and stable** – not annual appropriations
- **Energy sector funds** are not Treasury receipts !
- **Energy Company FUNDING side:** 3% to 5% of annual energy system revenues is a good benchmark
- **Many options to support private FINANCE side:** Green Investment Bank, KfW Bank, Pay As You Save (PAYS) tied to the utility meter, tax credits, others.
- **NOTES:**
  - ***Revenue collection* and *program administration*** can be different.
  - Many options are ***competitively-neutral***

Carbon Markets Can Finance Energy Efficiency

- **"Carbon Revenue Recycling"** -- Sell allowances, invest carbon revenue in low-cost carbon reduction (esp EE)
- In the US, 10 RGGI states now dedicate >80% of allowance value to clean energy (~55% to EE)
- **Even with low CO2 prices (~$3/ton) , RGGI has doubled large-scale EE investments in 10 states, raised over $400 Million annually for EE programs**
- **Now avoiding CO2 at a cost of (minus) $-73 per ton !**
- In Europe: each MS could award allowances or revenues to an Efficiency Trust or to regulated companies for auction & support for EE – new German fund is a good example.
- **Carbon Revenue Recycling for social housing upgrades** would lower the impact of the ETS on the fuel-poor, deliver large-scale, low-cost carbon reductions, and create new jobs in Europe.

The Regulatory Assistance Project (RAP)

- **RAP** is a global, non-profit team of experts providing technical and policy assistance to government officials on energy and environmental issues. RAP has advised governments in more than 25 nations and 45 states and provinces, and in Europe works closely with the European Climate Foundation.

- **Richard Cowart** is the Director of European Programmes for RAP, based in Brussels. A member of the IEA DSM Executive Committee, he served 12 years as Chair of the Vermont PSB (utilities regulator), and chaired the US regulators' national Committee on Energy & the Environment.

- **Visit our website** for recent research and policy briefs on *energy efficiency*, leading practices *for housing retrofits*, and the economics of *carbon revenue recycling*.

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