

# DSM Spotlight

The Newsletter of the International Energy Agency Demand-Side Management Programme February 2003



## An EU Directive on Energy Services—A New Log on the Fire

The European Commission has for quite some time advertised its intention to leave no stone unturned in its effort to reach the full potential of energy efficiency. In the mid 1990s, there was an attempt to give a directive on Integrated Resource Planning (IRP), which indicated that there was a large potential savings in avoided capacity on the energy supply side. As the liberalisation of electricity markets picked up speed, it became obvious that IRP was not a workable solution since the actor for the lead role, the utility industry, was no longer available for the show.

In 2000, the Commission noticed that there was a need to engage the energy supply side companies to "promote energy services and to foster demand side measures", and issued the *Action Plan to Improve Energy Efficiency in the European Community*. In addition to this action, the EU SAVE Programme has established several projects aimed at the investigation of opportunities to enroll energy supply side companies in the fight for improvements in energy efficiency, the latest of which is called, *Bringing Energy Services to the Liberalised Markets (BEST)* ([www.wupperinst.org/energy-efficiency/project.html](http://www.wupperinst.org/energy-efficiency/project.html) or [/publications.html](http://www.wupperinst.org/publications.html)).

### What is BEST for you?

BEST has come up with a few "possible elements" of a EU Directive that roughly constitutes the shopping list for the work in the Commission. The elements are divided into *common elements* that are needed to achieve a

common market in Europe and implementation *elements* that are to be decided on in each of the countries, depending on their specific situation.

The *common elements* are:

- A quantified energy saving target for the member states to be implemented during a 5-10 year period.
- A supportive policy framework to achieve the target.
- An obligation for the member states to secure funding for the programmes over the time period.
- Standard common methods for bottom-up evaluation.
- A way to ensure that monopoly segments decouple sales from profits.

For the *implementation elements*, BEST suggests two possible scenarios that illustrate the needs, see Figure 1.

BEST also notes that:

- It might be necessary to distinguish between the needs of different customer groups. (It is possible to combine the two scenarios even in one country.)
- Regional local governments and energy agencies can be involved.
- ESCOs will always be involved.
- Installation contractors, planners, retailers, consultants and many other business activities will benefit from increased investment in energy efficiency.

### COUNTRIES PARTICIPATING IN THE IEA DSM PROGRAMME

- Australia
- Austria
- Belgium
- Canada
- Denmark
- European Commission
- Finland
- France
- Greece
- Italy
- Japan
- Korea
- Netherlands
- Norway
- Spain
- Sweden
- United Kingdom
- United States

Figure 1.

Function	Scenario 1	Scenario 2
Administration	Distribution or transmission network or retail company obliged to achieve the target. Supervised by a special body.	Independent body, such as an Energy Efficiency Trust, or the government.
Implementation Body	The above types of energy companies, ESCO or other partner.	Distribution or transmission network or retail company, and also ESCOs, energy agencies, local governments and others.
Funding Arrangement	Cost recovery from prices and payment for energy efficiency services.	Channelled funds from prices or through taxes.

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# WMI

## When Will Buying “Energy Efficient” Be As Fashionable As Buying “Organic”?

The marketing challenge for the branding of energy efficiency is not a question of spreading knowledge but of establishing image, concludes the multi-national energy efficiency study conducted on behalf of the IEA DSM Task VII, Market Transformation, by Markeds og Medianinstituttet AS (MMI).

A survey of six European countries (Denmark, Finland, the Netherlands, Norway, Sweden, and the U.K.) was conducted to measure the knowledge and attitudes towards efficient use of energy in private households. And, the findings from this survey are being used to stimulate new methods of targeted marketing among energy efficient product manufacturers.

The study explored attitudes and behavior in the field of energy efficiency, which are closely related to typologies and value patterns. Understanding the characteristics of these typologies and value patterns will be crucial for those wishing to market their energy efficient products and services effectively.

As the Operating Agent for DSM Task VII, Verney Ryan of BRE in the U.K. notes, "... to the best of my knowledge, no such international investigation has ever been undertaken with an emphasis on analyzing attitudes, habits and the use of energy efficient products and how these correlate to an individual's specific socio cultural cluster..."

Mr. Ryan further comments, "The results have conclusively proved that a cross country analysis of public attitudes on energy efficiency is possible. The results also provide invaluable information which is needed when talking about "selling" energy efficiency as a concept

with multinational market actors."

The survey explored a number of issues vital to understanding the complex purchasing patterns of the domestic user of energy and included: brand attraction, knowledge of energy saving efforts, energy saving actions, use of energy saving light bulbs, energy efficient behaviour and willingness to pay for products labelled with special energy efficiency symbols.

The report's findings include some interesting findings. For instance, 2/3 of the 6,000 strong sample were willing to pay more for products labelled with special energy efficient symbols—good news for product manufacturers concentrating efforts on increased product efficiency. With this critical marketing data now in hand, this Task is setting up a series of meetings with industry to discuss new promotional ideas for energy efficiency and to seek solutions that will increase consumers' desire for energy efficient products and services.

As Mr. Ryan states, "... it would be wonderful if the results of this market research and the meetings with industry gave us the key to stimulate a demand for the brand of "energy efficiency" that could be as strong as the ever growing demand for the brand of "organic" food..."

Several meetings with key players from government and industry have already been held in many of the participating countries. Interest in the research results is high, and it is hoped that the market actors will use the information from the market research to develop a 'brand' approach to energy efficiency. This 'brand' approach would focus more strongly on people as brand aware, self-

conscious consumers. Thereby lifting promotion of energy efficiency beyond the usual 'save money and the planet' arguments and seeking to identify energy efficiency with the lifestyles, values and attitudes that currently drive consumer purchasing.

*For more information contact the DSM Task VII Operating Agent, Verney Ryan of BRE, United Kingdom, e-mail: ryanv@bre.co.uk.*

### EU Directive from page 1

- A market for "White Certificates" can be established.

### Better than BEST

The EU directive is now under preparation, a first draft should be available during the second quarter of 2003. And, it will certainly make use of the preparatory work done for BEST. In preparation of the directive, the Commission reiterates the potential for large energy savings and the alternative energy efficiency provides to building new capacity. It also suggests that energy companies should play an important role and that the existing DSM infrastructure could be used to deliver energy efficiency to customers.

The experiences gained from the liberalisation of the electricity markets varies greatly throughout Europe, but the general feeling is that energy companies, with a few exceptions, have little interest in participating in delivering energy services unless explicitly required by a directive. Other players on the scene, however, like ESCOs and energy agencies would welcome that another log be added to the fire.

# IX

## Two New Reports on the Role of Local Authorities in EE

### **Liberalisation and Its Impact on Municipalities in the Participant Countries and the U.K.**

This report gives a general background on the energy sector and the impacts of liberalisation in the countries participating in DSM Task IX, *The Role of Municipalities in a Liberalised System*, and in the U.K., which is an example of a country that has maximized the removal of barriers to liberalisation. The report discusses the manner in which liberalisation has taken place in each country and how this has affected the country's energy system, the major players on the market, and who is responsible for energy services and energy efficiency.

A number of conclusions can be drawn from this work. First, the role that municipalities play is related to their involvement in supplying energy and to how widespread district heating is in the country. For example, there is a broad zone in Northern and Central Europe where local authorities have been very involved in energy supply via municipally controlled enterprises and this is linked to their active involvement in district heating (the exception being Norway). And then there is a peripheral zone to the West and South of Europe, where climatic factors and culture are not particularly conducive to district heating, and therefore, there is little involvement in energy supply. However, this is changing as the market restructures—suppliers and larger distributors are buying up the smaller companies, which gives them access to the client, and local authorities are withdrawing from the energy market, even from the heating market in some countries.

Second, the local authority is proving to have a significant role to play in energy awareness raising, in particular with the small consumer where the transaction cost of undertaking energy efficiency work on a commercial basis is prohibitive. Also, there seems to be a change from local authorities being active participants on the supply side to being local regulators and creators of incentives.

Finally, the opening of the energy markets in the European Union has now been agreed upon, and even though the householder sector has been excluded from the immediate opening of the markets, they will eventually be completely open in all the EU countries. This will have profound implications for municipalities in their role as client as they will be faced with the need to put all their consumption out to competitive tender.

### **The Role of Municipalities in the Energy Sphere in the Participant Countries and the U.K.**

This report provides details on the different energy roles municipalities play, and comes to some interesting conclusions.

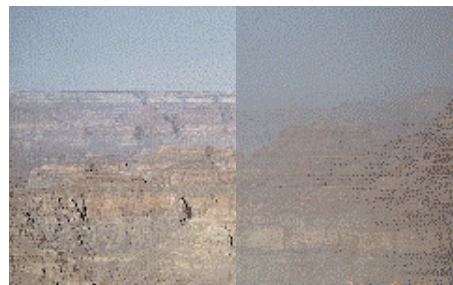
The municipality as a consumer will have to put the supplying of energy for its own buildings out to tender. As this happens, it seems likely that purchasing consortiums will form, a trend already well developed in the U.K. and Sweden.

The municipality as a producer of energy is diminishing except where it is necessary to supply heat (e.g., via small-scale CHP) or as a by-product of other responsibilities (e.g., refuse disposal). However,

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## **Efficiency And Renewable Opportunities in the Western United States**

The U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy is partnering with Western states to make aggressive use of energy efficiency and renewable energy measures and technologies to reduce regional haze in the 156 national park and wilderness areas in the West. "There is a tremendous opportunity to realize substantial efficiency, as well as to integrate cleaner, sustainable energy technologies into all aspects of our society" according to the Governors of the 15 states in the Western U.S. They have adopted a goal of increasing energy efficiency and generating 10% of the region's electricity from renewable energy by 2005 and 20% by 2015.



**Poor visibility due to air pollution (shown on the right) is an issue at the Grand Canyon National Park.**

The Governors and Western Tribal Leaders have created the Western Regional Air Partnership (WRAP) to implement the recommendations. They have identified barriers impeding the use of energy efficiency and renewable energy technologies, actions to overcome such barriers, and recommended renewable energy, energy efficiency and economic development policies to reduce visibility-impairing emissions. The western governors strongly support energy efficiency and renewable energy goals, and they acknowledge that

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## Renewable Opportunities *from page 3*

energy efficiency is a pollution prevention strategy.

The energy efficiency goals recognize that utility financing of efficiency and DSM programs has fallen sharply and recommend that states consider tax incentive programs to promote investments in energy efficiency to complement or substitute for ratepayer funded initiatives. The goals also support the adoption of energy codes for buildings and appliance standards, life-cycle cost procurement standards for energy-using equipment, creation of public buildings efficiency plans, and funding for

building retrofits. They also recommend the promotion of energy price signals by considering greater use of real-time, time of use, inclined block and other pricing approaches that communicate the cost of electricity to consumers.

Participating states must submit a State Implementation Plan by December 30, 2003 that describes and analyzes the steps each state will take to reduce haze, including a description of the energy efficiency initiatives it will undertake.

The Western Governors' also have

adopted resolutions urging support for strong Federal residential and commercial energy codes and high efficiency standards for air conditioners. Five states in the West now have Renewable Energy Portfolio Standards (RPS) and at least two states have RPS legislation under consideration. Both the 2001 energy crisis in the West and the Regional Haze rules have brought the need for energy efficiency to the forefront of the Western Governors' agendas.

*For more information, visit the Air Pollution Prevention Forum on the WRAP website at [www.wrapair.org](http://www.wrapair.org).*

## Local Roles in EE *from page 3*

there appear to be real opportunities to influence energy efficiency policy through a municipality's role as a distributor, either directly or through conditions in a concession (e.g., where the concession fee is fixed by law the local authority could possibly extract benefits through conditions on the concession). Even where the concession system does not operate, as in the U.K., distributors are courting the local authorities as the best means to deliver their regulatory obligations on energy efficiency.

While there was concern that the role of the municipality as a regulator would decrease through liberalisation, there is evidence that it is actually increasing. In France, local authorities will cooperate in regional energy strategies, and in the U.K., government advice emphasizes the local authorities' strategic coordination role. While in

Poland, the liberalisation law obligates the local authorities to prepare local energy plans.

Although local authorities do not have a legal obligation to raise energy efficiency awareness, they are the obvious candidates for raising awareness among small consumers. Prior to liberalisation, energy awareness raising was seen as a responsibility of distributors, almost a quid pro quo for monopoly. Following liberalisation this was rapidly dropped, except where it was funded by the local authority or imposed by regulation. If CO<sub>2</sub> reduction targets become the norm, it seems that the involvement in this sphere may need to increase significantly. The key question is how this is to be funded. Local authorities have generally taken this up enthusiastically when the resources are provided.

This DSM Task is now investigating detailed case studies to examine effective action of local authorities in different partner countries and elsewhere. Another report should be published in May/June 2003.

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*The DSM Spotlight is published four times a year to keep readers abreast of recent results of the IEA Demand-Side Management Programme and of related DSM issues. The viewpoints or policies expressed in this newsletter do not necessarily reflect those of the International Energy Agency, the IEA Demand-Side Management Programme member countries, or the participating researchers.*

*For more information on the Programme, its work and contact addresses, please visit our website at <http://dsm.iea.org>*

### **No. 19, February 2003**

Prepared for the IEA Demand-Side Management Executive Committee

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