

DRAFT FOR CONSULTATION

Economic Commission for Europe

Committee on Sustainable Energy

Group of Experts on Energy Efficiency

Draft Work Plan of the Group of Experts on Energy Efficiency for 2016-2017

I. Introduction

1. Annex II of the Executive Committee decision on matters related to the Committee on Sustainable Energy (ECE/EX/2013/L.15) establishes a Group of Experts on Energy Efficiency (the Group of Experts). The mandate of the Group of Experts is to carry out concrete, results-oriented activities that, in line with the “Sustainable Energy for All” (SE4All) initiative of the United Nations Secretary-General, help significantly improve energy efficiency in the region, thus contributing to climate change mitigation efforts; and strengthen regional cooperation in energy efficiency, with a view to reducing greenhouse gas emissions. The mandate is approved until December 2015, with the possibility of extension.

2. According to its Terms of Reference, the Group of Experts will concentrate on: (a) Regulatory and policy dialogue addressing financial, technical and policy barriers to improve energy efficiency; and (b) Sharing experience and best practices in the field of energy efficiency in the United Nations Economic Commission for Europe (ECE) region, including on strengthening institutional capacity in energy efficiency to reduce greenhouse gas emissions.

3. At its first session on 17-18 November 2014, the Group of Experts on Energy Efficiency agreed on its Work Plan for 2014-15 and requested the secretariat, in coordination with the Bureau of the Group of Experts, to prepare a Draft Work Plan for 2016–2017 for the next session of the Group of Experts. This decision was endorsed by the Committee on Sustainable Energy at its twenty-third session on 19-21 November 2014 and approved by the Executive Committee of ECE at its seventy-fifth meeting on 10 February 2015. This Draft Work Plan is prepared in accordance with these decisions.

II. Background

4. The Group of Experts requested the development of a menu of energy efficiency policy options. Under this task, a report on *Best Policy Practices for Promoting Energy Efficiency* has been prepared that presents a structured framework of best practices in policies to promote energy efficiency for climate change mitigation and sustainable development. The report points out that the real challenges to accelerating energy efficiency lie in its policy foundations: the policy governance frameworks, the bankability that is enabled by sound financial policies and utilities that enable energy efficiency with cost-

reflective prices and supportive measures. Some of the main challenges to increase the uptake of energy efficiency in the region that are highlighted in the report include:

a) Cross-sectoral governance. About half of the ECE member States have demonstrated policies and programmes that have improved energy efficiency. For these countries, there is scope to further develop the social and economic gains that can be achieved from energy efficiency, for others there is a pending need to establish effective governance and policy processes. There seems to be a need to enhance the ability of countries to develop the statutory and policy foundations for energy efficiency to enable sound governance and implementation of economic policies and measures.

b) Cross-sectoral finance. Analysis of various studies concludes that a great potential for energy efficiency projects still exists in the ECE region, particularly in the countries of Eastern Europe, Caucasus and Central Asia. Success will require careful consideration of the framework conditions, with promising projects being presented to financial institutions and potential investors with documentation of a high standard, in order to achieve financial closure. International financial institutions, like the European Bank for Reconstruction and Development (EBRD), have established networks of local banks, effective project risk management tools and an understanding of the policy and technical features. The information gap that requires priority appears to be around the policy context within countries.

c) Utilities. It is clear from a number of perspectives that there is a general failure in price signals and operational capabilities in utilities that mean energy efficiency will remain underdeveloped. Improvements in district heating are only possible at the scale required if utility structure and commercial drivers are addressed. The scale and impact of this persisting policy gap needs to be assessed and understood. Solutions that overcome this policy inertia, while addressing structural barriers and consumer affordability, can then be proposed.

d) Operational policies and measures. Most operational policies, like appliance standards and labelling policies, building codes, vehicle fuel economy measures, are well established in many countries. The principles, the economics and programme response dynamics have been developed. Standards and supporting marketing and technical measures are established and policies include active review and improvement processes. Early adopters have shouldered the risks and the practices are now a low-risk option for countries yet to engage in them. There is still ongoing work to expand these policies globally, assisting such countries and standardizing and packaging policies into ready-to-apply streamlined measures.

5. The Group of Experts, jointly with the Committee on Housing and Land Management, has explored the potential for activities on energy efficiency standards in buildings. The Chair and several members of the Bureau and of the Group of Experts participated in the Expert consultations held by the ECE on 20-21 April 2015. Preliminary results of the regional survey to obtain stakeholders' opinion on the role that ECE can play to better assist member States and the outcomes of the meeting showed that energy efficiency standards in buildings will play a major role towards improving energy efficiency in buildings but that more integrated, holistic approach is sought. The meeting proposed to establish an informal Joint Task Force on Energy Efficiency Standards in Buildings.

6. For the Fifth International Forum on Energy for Sustainable Development held in Hammamet on 4-7 November 2014, the Executive Secretaries of the United Nations Regional Commissions signed a joint statement (the Hammamet Declaration), in which they affirmed that the objectives of energy sustainability are attainable, and need not contradict more short-term considerations, if the world embarks on a determined, collective

effort. The joint statement is a call for action to their respective member States, highlighting in particular three key components: a) Energy efficiency in most countries needs to improve more quickly; b) Renewable energy policies need to be redesigned; and c) Equitable access to modern energy services requires mobilising adequate resources. The next step would be making the Hammamet Declaration operational for the ECE region, including developing a score card (progress tracking report) for the countries on improving energy efficiency.

III. Concrete Activities

7. On the basis of the outcomes of the implementation of the Work Plan for 2014-15, the Group of Experts proposes to undertake the following activities:

A. Exchange of know-how and best practices in selected economic sectors on how to significantly improve energy efficiency in the ECE region

8. **Description:** The Group of Experts will encourage the exchange of know-how and best practices between relevant experts of all member States and relevant international actors on how to improve energy efficiency in the region. This work will be undertaken collaboratively with other organizations, such as: International Energy Agency (IEA), Copenhagen Centre on Energy Efficiency (C2E2), Energy Charter Secretariat, International Partnership for Energy Efficiency Cooperation (IPEEC), United Nations Foundation, European Commission, United Nations Environment Programme (UNEP), United Nations Industrial Development Organization (UNIDO), European Bank for Reconstruction and Development (EBRD), World Bank, International Finance Corporation (IFC), United Nations Development Programme (UNDP), United Nations Framework Convention on Climate Change (UNFCCC), Investor Confidence Project Europe, International Smart Grids Action Network (ISGAN), International Organization for Standardization (ISO), International Electrotechnical Commission (IEC), other United Nations Regional Commissions (UN RCs), and other relevant organizations.

9. **Work to be undertaken:**

- Identify the key operational policy priorities for member States and provide platforms for collective action.
- Provide an effective platform for expanding already developed policies and measures across countries in the region. In particular, cooperate with IEA on its Policies and Measures Databases on Energy Efficiency and on Building Energy Efficiency Policies.
- Organize information sharing activities (workshops, seminars, roundtables, etc.) for exchange of experience on energy efficiency best practices and policies.
- Identify existing gaps in standards and regulations and cooperate with other relevant organizations in addressing them.
- Monitor and promote the results of World Bank's Readiness for Investment in Sustainable Energy (RISE) Initiative that will assess the legal and regulatory environment for investment in sustainable energy, which plans to include 31 ECE member States in 2015.

10. **Deliverables:** A report submitted for consideration by the Group of Experts.

11. **Timeline:**

- TBD.

B. Exchange of know-how and best practices in ECE on how to significantly improve energy efficiency in the ECE region through utilities

12. **Description:** One of the major potential drivers of improving energy efficiency is utilities. The role for utilities in developing social and economic outcome is only really established in North America. In most other countries, energy market policies disable the policies for rational demand and supply-side implementation of energy efficiency like cost-reflective prices. There is a need for an increased effort to consider energy market policies that mandates, enables and motivates utilities to profit from improved retail and distribution policies and practices. The Group of Experts will explore, in cooperation with experienced policy developers (e.g. the Regulatory Assistance Project (RAP), the barriers to and options for developing utility delivery of energy efficiency in the ECE region. This work could also support cross-sectoral activities within the Sustainable Energy Sub-programme on understanding of the state of development of smart grids and increasing awareness of their advantages. In particular, close cooperation is expected with the Group of Experts on Cleaner Electricity Production from Fossil Fuels.

13. The fundamental economics and market response dynamics of best policies and practices are understood. Necessary supporting marketing and technical measures are established in international processes that include active review and improvement processes. Due to experience gained the best practices are now a low-risk option for countries that have yet to engage in them. The role of standards in supporting best practices in energy efficiency needs to be further explored. The Group of Experts through its participation in a joint Informal Task Force on Energy Efficiency Standards in Buildings will be assessing existing gaps and providing the required information to interested governments.

14. Work to be undertaken:

- Identify barriers to and options for developing utility delivery of energy efficiency in the ECE region.
- Identify policies and legislation that will help governments address existing gaps.

15. **Deliverables:** A report submitted for consideration by the Group of Experts.

16. Timeline:

- TBD.

C. Assess the opportunities to enhance energy efficiency improvements through quality of service regulation

17. **Description:** Traditional regulatory approaches in gas and power traditionally involve rate-setting based on cost of service regulation. Cost of service can be based on accrued costs plus returns on investment as in the US rate base approach to setting tariffs, it can be calculated with reference to long-run marginal costs (LRMC) or to best in class benchmarks, or it can be determined through costs incurred in wholesale markets with adders for the costs of transmission and distribution. In any of these cases the prices paid by final consumers is determined by the commodity and infrastructure costs of energy commodities paid by the service providers. As a consequence, traditional utilities have always had an incentive to increase sales by increasing the quantity of electricity or heat sold, which means that the industry's interests are not aligned with those of government. The solutions pursued to date have been the imposition of various demand-side

management programmes that address the symptoms of the energy efficiency challenge but that do not address the root problem which is a market that is badly designed in that what is sold is not what is bought. There has been some experimentation around the world with quality of service regulation, often in non-energy markets, and it would be useful for the Group of Experts to consider how quality of service regulation could enhance the uptake of energy efficiency investments.

18. **Work to be undertaken:**

- Review the state of play in quality of service regulation both in the energy sector and in other industries that could have relevant lessons for energy.
- Assess the relationship between the costs of service and the quality of service in ECE markets.
- Recommend best practices for quality of service regulation in the ECE region.

19. **Deliverables:**

- A report on the state of play in quality of service regulation submitted for consideration by the Group of Experts.
- Survey and analysis of the relationship between cost of service and quality of service.
- Best practice recommendations.

20. **Timeline:**

- TBD.

D. Regulatory and policy dialogue addressing financial barriers to improve energy efficiency

21. **Description:** Energy efficiency financing remains insufficient both in terms of absolute numbers and in terms of its share of overall energy financing. Naming energy efficiency as “the first fuel” has not yet been converted into the adequate amount of investments that would make possible achieving one of the goals of the SE4All initiative – doubling the global rate of improvement of energy efficiency by 2030. In most countries of the ECE region energy efficiency is still largely equity funded or linked to grants and subsidies. Local commercial banks in many countries are providing financing through credit lines offered by international financial institutions and/or national central bank funds targeted at sustainable energy. Bond financing of energy efficiency is an emerging opportunity for energy efficiency. National energy efficiency funds, particularly those set as a revolving fund, is another option. The Group of Experts will explore which financing strategies work best, how governments can improve their bankability and scope to expand private financing of energy efficiency; which policies and legislation have been proven to deliver results. This work will be conducted in cooperation with Governments of member States, financial institutions, international organizations (e.g. C2E2, World Bank etc.), and other stakeholders.

22. **Work to be undertaken:**

- Identify policies and legislation that increase the bankability of energy efficiency.
- Identify best practices in finance strategies.
- Analyze energy efficiency finance options in the region.

- Improve the dialogue between the private financial sector, development banks and countries on the business case of energy efficiency financing.
23. **Deliverables:** A report submitted for consideration by the Group of Experts for wider dissemination.
24. **Timeline:**
- TBD.

E. Facilitate engagement in the Global Energy Efficiency Accelerator Platform

25. **Description:** The Global Energy Efficiency Accelerator Platform is a public-private partnership to scale-up energy efficiency policy, action and investment, with the aim of contributing to doubling the rate of improvement in energy efficiency worldwide by 2030. The Platform provides governments with the means for engaging with a variety of stakeholders whose knowledge of technologies, markets, financial instruments and implementation approaches can support scaling-up of energy efficiency actions in different sectors. The Platform helps to drive action and commitments by national and sub-national leaders at the country, city, state, region, or sector level.

26. The existing accelerators cover Vehicle Fuel Efficiency, Appliances and Equipment, Lighting, Buildings Efficiency, Industry and District Energy.

27. **Work to be undertaken:** Facilitate engagement of national and local governments, private sector and other stakeholders in the Accelerator Platform. This engagement would encourage ECE member States to sign up to the Platform.

28. **Deliverables:** Promotion of activities and communications materials on updates, menu of options and 'offer documents' to ECE member States.

29. **Timeline:**
TBD.
