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Report on the Fuel Poverty National Roundtable
on the implementation in Romania of Article 7 of the new EU Energy Efficiency Directive and setting up
an obligation scheme

UNDP-GEF Project Improving the Energy Efficiency in Low-Income Households and Communities in Romania

Wednesday, 5 Dec. 2012, Hotel Capital Plaza Bucharest

Conference rationale

The event aims at bringing together national stakeholders, including public institutions, companies in the energy sector and associated trade unions, civil society organizations, media, etc., to discuss concrete modalities of implementation in Romania of Article 7 of the recently adopted EU Energy Efficiency Directive (2012/27/EU), which stipulates that each Member State shall set up an **energy efficiency obligation scheme**. This scheme shall ensure that either all energy distributors or all retail energy sales companies operating on the Member State's territory achieve annual energy savings equal to 1.5% of their energy sales, by volume, in the previous year in that Member State, excluding energy used in transport. This amount of energy savings shall be achieved by the obligated parties among final customers. Within the energy efficiency obligation scheme, Member States may:

- (a) include requirements with a social aim in the saving obligations they impose, including by requiring measures to be implemented in households affected by energy poverty or in social housing;
- (b) permit obligated parties to count towards their obligation certified energy savings achieved by energy service providers or other third parties;
- (c) allow obligated parties to count savings obtained in a given year as if they had instead been obtained in any of the two previous or two following years.

One of the key issues for Romania is that these obligation schemes will address, as a priority, **the needs of low income households in order to create supportability for energy bills for vulnerable consumers.**

The conference was organized in conjunction with the 3rd session of the Inter-Organizational Working Group established within the UNDP-GEF project, whose main role is to facilitate the elaboration and promotion of policy recommendations for increasing energy efficiency and reducing fuel poverty.

The context

The round table meeting was organized within the framework of the project The UNDP-GEF project “Improving the energy efficiency in low income households and communities in Romania” is implemented by UNDP Romania in partnership with the Ministry of Regional Development and Tourism (MDRT). The Ministry of Environment and Forests, National Association of Energy Auditors for Buildings (AAEC) and six municipalities in Dolj and Hunedoara are also partners in the project.

The building sector in Romania is dominated by residential buildings that are generally old and have poor thermal performance. The existing energy inefficiencies in the district heating and building sector coupled with a slow pace of building turnover leads to a situation where large amounts of energy are consumed and wasted and large quantities of expensive fossil fuel are imported. These inefficiencies lead to a situation wherein many Romanians cannot afford to keep their homes at a reasonable temperature – resulting in fuel poverty. Whilst there may be some issues related to access to energy, in Romania the issue is almost entirely related to the housing conditions (i.e. thermal efficiency and appropriate heating systems) and the ability to pay.

The general objective of the project is to dismantle the barriers to the implementation of energy efficiency measures among poorer households and in poorer communities in Romania and alleviate fuel poverty. This will be achieved through the following outcomes:

Outcome 1: Romanian energy policy integrating fuel poverty issues and addresses EE needs in low-income communities

Outcome 2: Supply of trained architects, building engineers, builders and auditors with EE experience expanded; municipalities in low-income regions have a better understanding of EE issues and are able to support auditing and weatherization projects – including disseminating information for Do-It-Yourself projects

Outcome 3: Retrofitted buildings (and potentially new EE buildings constructed) with reduced fuel consumption or using improved sustainable energy technologies in low-income communities

Outcome 4: Data and information available for decision-makers for designing programs to address fuel poverty.

There are distinct components/activities within the UNDP-GEF projects which makes this project unique in the region, as follows:

- It addresses in a novel way the issue of vulnerability to **fuel poverty** at a moment when the EU and national legislation does not address specifically the issue (i.e., well defined thresholds and dedicated policies and measures);
- It encourages and stimulates the use in rehabilitation works of locally-available, environment-friendly (i.e., **sustainable**) **building materials**
- It takes advantage of the **economy of scale** and encourage the replication of project results, e.g., when supporting technical analysis of typical apartment block designs

- It provide subsidies for selected buildings in the pilot regions/municipalities which would otherwise have not been reached by the financing programs developed at the national level (e.g., **very poor households**)
- It provides centralized **training** for municipalities' technical staff and **energy professionals** (e.g., auditors, engineers, architects)

Some technical background

On 4 October 2012, the Council endorsed the political agreement on the Energy Efficiency Directive. The European Parliament cast its favorable vote on such agreement on 11 September 2012. It entered in force with its publication in the Official Journal of the EU on 14 November 2012. The main purpose of the Directive 27/2012/EU is to make a significant contribution to meeting the EU's 2020 energy efficiency target. The proposal also looks beyond the 20 % target and seeks to set a common framework to promote energy efficiency in the EU beyond 2020.

The Directive brings forward legally binding measures to speed up Member States' efforts to use energy more efficiently at all stages of the energy chain – from the transformation of energy and its distribution to its final consumption. These will drive energy efficiency improvements in households, industries and transport sectors. Measures include the legal obligation to establish energy efficiency obligations schemes or policy measures in all Member States, and enhance the role of the public sector and a right for consumers to know how much energy they consume.

A preliminary assessment of the legal and policy framework on energy efficiency and fuel poverty identified several possible avenues for the implementation of art. 7 of the Energy Efficiency Directive, of which some have already been or are being tested in other EU countries:

- **White certificates schemes:** A white certificate, also referred to as an Energy Savings Certificate (ESC) is an instrument issued by an authorized body guaranteeing that a specified amount of energy savings (e.g., 1 MWh) has been achieved. Each certificate is a traceable commodity carrying a property right over a certain amount of additional energy savings and guaranteeing that these savings have not been accounted for elsewhere. Similarly to 'green certificates' resulting from renewable energy or GHG emission reduction units within the Kyoto Protocol / EU ETS, they imply comprehensive methodologies/inventories, registry, monitoring and evaluation, etc.;
- **Tariffs applied by ESCO** (energy service companies): a commercial business providing a broad range of energy solutions including design of energy savings projects, energy conservation, energy supply, or risk management. This implies the application of flexible billing instruments, including binomial tariffs, and the reform of the current schedule of heating aid payments so that a fixed portion of the energy bills of targeted low-income households (i.e., whose fluctuation is costly to be subsidized by the energy company) is subsidized from public funds;
- **Energy Efficiency Trust Fund** established to partially redirect the state budget funds away from contributions towards the up-front costs of thermal rehabilitation, towards the creation of a fund to provide soft loans to householders investing in thermal improvements measures.

These alternatives/scenarios have their own advantages and disadvantages, whose analysis in the specific context of Romania is worth discussing. The outcomes of the workshop may represent the basis for concrete policy proposals (e.g., secondary legislation) to be drafted with project supported and promoted at the Governmental level, early 2013.

Proceedings

More than 60 representatives of the public administration, business sector, universities and NGOs participated in the roundtable, whose detailed agenda is present attached. Private sector was represented by petroleum companies, energy suppliers, energy distribution, ESCOs, research institutes etc.

The event was opened by Mr. Parviz Fartash, UNDP Resident Representative in Romania. Following the welcome words, Mr. Fartash underlined the importance of the new Energy Efficiency directive especially from the poverty eradication perspective. For this reason, the project is providing a substantial support for developing the necessary legislation and also provides support for implementation and involves all the stakeholders.

The presentations continued with Mr. Emil Calota, ANRE Vice-President who described the context of the Energy Efficiency Directive (27/2012) in Romanian legislation and priorities for regulatory authorities in the near future for its transposition and implementation. From the Ministry of Economy, Commerce and Business Sector (MECMA) Ms. Director Groza expressed her concerns regarding the time for transposition that is very short, with close deadlines (ex. In April 2013 MECMA should communicate the first progress report setting up the targets). From this perspective MECMA is interested to continue the dialogue with targeted companies, as well as with different other stakeholders.

MECMA in cooperation with ANRE will set up a Working Group for the transposition of the directive that will end in June 2014. This WG will decide regarding the instrument(s) chosen for implementing art 7 of the directive.

A short presentation of the project made by Monica Moldovan, Programme Manager, UNDP Romania and Lavinia Andrei, Project Task Leader, introduced the audience in the project context, results achieved by date and forthcoming activities.

The technical segment of the conference commenced with the presentations of the two UNDP experts, Mr. Virgil Musatescu and Mr. Ian Househam. They focused on “fuel poverty”, how the term is defined in other countries and what kind of measures have been implemented in other European countries like UK, France, Italy.

The experts’ presentations were followed by a first round of debates that underline the necessity for defining “fuel poverty” in Romania, but also to identify the poverty dimension in general in Romania.

Mr. Cornel Rotaru from ANRE has explained the negotiation process of the directive at the EU level and underlined the need for establishing as soon as possible a national baseline, to be able to decide on the target and trajectory assumed.

From the Ministry of Environment and Forest Mr. Dinu Harjeu presented how the EU-ETS Directive can stimulate energy efficiency in industrial sector.

The consumers were represented by Mr. Mihai Mereuta, President of the Habitat Owners Association who underlined the necessity for information and education of the consumers through the involvement of the energy suppliers and distributors and the need for making the energy prices more transparent for consumers.

Mr. Ion Lungu, President of the Association of Electricity Suppliers in Romania recognized as well the importance of the consumers' education and public awareness and presented the cost sharing of the energy bill, requesting also a more transparent price and a better communication of it in relation with the consumers. He also mentioned the need for new technology that should be applied like intelligent metering and networks.

Mrs. Anamaria Stroia, Director at Regional Environmental Center Romania, presented some recommendations regarding the opportunity of using different mechanisms under art 7 of the directive. She underlined as well the importance of the monitoring and verification mechanisms.

During the ensuing discussions, the representatives of the private sector expressed high appreciation for the initiative and interest in working with the authorities for transposing and implementing the directive, and raised a series of questions or concerns regarding next steps in implementing the energy efficiency in Romania. The most important comments and suggestions are presented below:

- Full energy market liberalization;
- Cooperation between all national stakeholders, including public institutions, private sector and civil society organisations;
- Finding synergies with other directives (ex. Directive 31/2010 on energy performance of buildings);
- Specific targets for energy conservation and energy efficiency that are accompanied by specific policies and measures;
- Promoting ESCOs and make local administrations aware about the legality of such contracts;
- Need to address fiscal problems with certificates, compensations and European funds;
- High efficiency cogeneration to be considered as an energy efficiency measure;
- To target also rural area, not only urban area, since the former also has large potential in particular with regard to the use of traditional wood stoves;
- Fiscal neutral obligations for suppliers and distributors;
- Price supportability for the consumers.

Conclusions, follow-up:

1. First of all, the audience contained all relevant stakeholders: representatives of UNDP and project team, ANRE Ministries of Economy and of Environment, consumers representatives, energy

companies (suppliers and distributors) associations, and regional environmental associations. In this respect the consultation was useful, relevant, and correctly reflected stakeholders' positions.

2. The topic under debate is complex and disputable, mostly related to the article 7 on the obligation scheme. This type of scheme has been discussed at large: definition, possible ways of application, qualitative implications, international experience of white certificates, etc. However, all speakers agreed that the obligation scheme is not the single alternative, being in accordance with para 7.9 of the Directive: "As an alternative to setting up an energy efficiency obligation scheme under paragraph 1, Member States may opt to take other policy measures to achieve energy savings among final customers, provided those policy measures meet the criteria set out in paragraphs 10 and 11".
3. The representatives of energy suppliers and distributors expectedly do not consider that white certificates scheme is the right solution for Romania, and they may be integrated in such schemes as obligated parties. They can be involved by providing some funds for energy efficiency (either for a common fund or for a third party financing entity) and by being involved in education/training activities.
4. Another domain to be considered by the distributors or suppliers should be "smart metering" and introduction of binomial tariffs that distinguish the subsidized part of the energy bill.
5. It was underlined a need for transparency in setting thresholds and imposing obligations (e.g., who is bearing the cost).
6. Consequently, according to majority of speakers, it seems that for Romania it would be better to have a combination of different possible schemes. These have to be carefully chosen and combined, because – till now – the alternative schemes did not show important results.
7. Given the experience in other EU countries, it is advisable to take advantage of the flexibility existent in the first years of implementation, and leave as much room as possible for improvements to the policies initially adopted.
8. One of the most important effects of such schemes' implementation will be on energy/fuel poverty. If the energy savings are cost effective, this impact would be positive and the quantitative reduction of energy consumption will prevail against the rising energy price (including the schemes' costs). The logic conclusion is that one of the criteria to choose specific schemes is to be cost effective.
9. Unfortunately, a number of essential data for decision making is still missing. Some of them are: the "business-as-usual" (BAU) scenario for energy consumption, the new target for energy savings, quantitative impacts of different measures, etc. That needs a series of studies made or led by ANRE, useful at the country level but also to answer to usual European Commission's questions. So, a task

force/team/group of specialists is critical to be established to guide these studies. At the same time, cooperation with energy design and research institutes will be beneficial.

10. Collaboration between the ministries of Economy, Environment, and Regional Development is also essential, as is the Ministry of Finance's involvement in this process, because of the new administrative costs, possibility to establish a National Fund for Energy Efficiency, an improved "social safety net" scheme, etc. For the implementation of the fuel/energy poverty alleviation measures, Ministry of Labour and Social Protection will have a clear role. Consequently, there is need to establish an entity to coordinate all these efforts – probably an inter-ministerial committee (IC), provided that the formal aspects are solved rapidly, to enable the committee to work with due regard to the very tight deadlines.
11. The Directive imposes tight deadlines for its implementation. As a consequence, the IC has to propose an appropriate "road map", that will be sent to European Commission.
12. ANRE will organize at least one more public event to present the scheme/s that will be proposed for energy efficiency in Romania. UNDP project may help in organizing this new meeting and the project can be a part of Directive's implementation efforts by providing technical and logistic support.

Agenda

Moderator: Mr. Virgil Musatescu

- 09:00 Registration of participants and welcoming coffee
- 09:30 Welcome remarks: Mr. Parviz Fartash, UNDP Resident Representative a.i. in Romania
Mr. Emil Calota, ANRE Vice-President
- 09:45 Introduction on the main provisions of the new EU Energy Efficiency Directive and implications for Romania: Mr. Corneliu Radulescu, Director, ANRE
- 10:00 Brief presentation of the UNDP-GEF project “Improving the Energy Efficiency in Low-Income Households and Communities in Romania” and its relevance for the EU Directive implementation: Ms. Monica Moldovan, Head of Energy and Environment Unit / Ms. Lavinia Andrei, Project Task Leader, UNDP Romania
- 10:15 Presentation of possible avenues for the implementation of art 7 of the Energy Efficiency Directive in Romania: Mr. Virgil Musatescu, UNDP consultant
- 10:30 Presentation on fuel poverty mitigation: the role of utility obligation schemes, best practices in other EU countries: Mr. Ian Househam, UNDP consultant
- 11:00 Coffee break
- 11:30 Position of ANRE – Main principles and expected deadlines: Mr. Corneliu Rotaru, Director
- 11:40 Position of the Ministry of Environment and Forests - Relation between the EU Emissions Trading System and Energy Efficiency Directive: Mr. Constantin Harjeu, Climate Change Department
- 11:50 Position of the energy companies: Mr. Ion Lungu, President of the Association of Electricity Suppliers in Romania
- 12:00 Position of domestic users’ associations: Mr. Mihai Mereuta, President HABITAT Owners Association.
- 12:10 Position of an environmental NGO with regional mandate: Ms. Anamaria Stroia, Country Director – REC (Regional Environmental Centre)
- 12:20 Moderated discussions, questions and answers
- 13:45 Conclusions: Mr. Virgil Musatescu
- 14:00 Lunch buffet

Working languages: Romanian and English (interpretation provided)