RAP EEO Toolkit
Compliance Regime, Section 9

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Contents

• Essential duties of an administrator and resource requirements.*
• Monitoring and Verification (M&V)
• What happens if the energy saving target is missed?

*(Note only the UK, Portugal, and to some extent Poland, have given this duty to Energy Regulators; the administration is usually undertaken by either the national government or an energy agency)*
Typical Administrative Procedure for EU EEOs

Government sets policy, overall target & appoints an administrator

ADMINISTRATOR (e.g. Regulator, Agency)
Allocates individual targets to energy entity; defines all administrative requirements of the obligated energy entity; ensures quality standards and determines actual energy savings; reports total and individual progress to Government on an annual and final basis

Energy Entity

DELIVERY
Mainly by bilateral contracts with EE industry but also by energy entities directly or via partners e.g. social housing

End Use Customers
Essential Duties of an Administrator

The administrator’s responsibilities include:

- Allocating the target among obligated energy companies
- Determining accreditation process for energy savings
- Issuing technical guidance on eligible measures
- Accrediting energy savings and monitoring obligated companies’ progress to targets
- Putting in place mechanisms to track transfer or trade of savings
- Underpinning everything is Monitoring & Verification
- Report annual progress to government & final obligation period report
Allocating the Target

- Individual targets for energy companies based on their market share of the energy type in the obligated end use sectors
- Companies that provide dual fuel (say gas and electricity) will have separate targets for each fuel
- Targets can change with fluctuating market shares – adjust retrospectively on an annual basis?
- If small energy suppliers/distributors are to be exempted, devise monitoring arrangements on market share; possibly have “soft starts” e.g. UK ramps up target for new entrants slowly once above the threshold due to economies of scale
Defining the Administrative Requirements

- Two aspects – defining the process and defining the technical requirements including guidance on quality and installation competence
- Both detailed and cannot be outlined today
- This information is crucial to minimise “administrative effort “ on both EEO administrator and energy company
- Typical for both documents to be published by the EEO administrator after consultation with the obligated companies
- Strongly recommend read other MS administrator’s guidelines & adapt those to local requirements
What is Covered in Process Document?

- How administrator has set each energy company’s target
- Arrangements for any prior approval of the energy company’s actions or schemes that it plans to undertake; does not guarantee the energy company any energy savings but hopefully avoid “tears” later
- How they will determine the actual energy savings that have resulted from the energy company actions or schemes
- How they will enforce compliance with the requirements of the statutory EEO legislation
- What information the administrator will require to produce the annual report to Government on the progress of the scheme to date; report will also discuss any issues to be drawn to Government’s attention.
Covered in Technical Guidance Document

• Sets out the technical standards or specific requirements that need to be met when delivering or installing the energy efficiency measures to ensure that the energy savings attributed to each measure are achieved

• Can include specific best practice guidelines to be followed when installing measures otherwise the energy savings may not materialise

• Good practice for administrator to issue spreadsheets for the common energy saving measures along with their deemed energy saving values; reduces paperwork and makes life simpler for both the administrator and the energy company

• Administrator likely to need specialist technical expertise; common to call upon independent experts or the MS’s energy agencies, e.g. ADEME in France and ENEA in Italy
Administrator Costs and Resources

• Administrator costs have to be paid either by Government or the obligated parties
• Deemed or scaled energy savings have proven to minimise the administrative burden
• Historically in Europe, the administration requirement has been low, e.g. in Italy the energy regulator had initially 3 growing to 5 people working on their White Certificate scheme by 2012.
• Additionally, Italian administrator used between 3 to 10 part time expert consultancies in the range to supplement their in-house team
• As British EEOs have shown since 2013, forgetting the KIS principle and abandoning deemed energy savings has produced a bureaucratic nightmare
British Administrator Resources Over Time

<table>
<thead>
<tr>
<th>EEO name and period</th>
<th>Ofgem staff numbers</th>
<th>Energy supplier spend £ million/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>EEC1 2002-2005</td>
<td>4 start; 7 at end</td>
<td>£136</td>
</tr>
<tr>
<td>EEC2 2005-2008</td>
<td>7</td>
<td>£305</td>
</tr>
<tr>
<td>CERT 2008-2012</td>
<td>7 start; 9 at end</td>
<td>£770</td>
</tr>
<tr>
<td>ECO 2013 - present</td>
<td>38</td>
<td>~ £900</td>
</tr>
</tbody>
</table>

During CERT the costs of Ofgem staff plus external spend was around £1.2 million paid by the energy companies. Putting this cost into perspective, it was less than 0.2% of the expenditure by the energy suppliers on ECO
Monitoring and Verification (M&V)

- M&V ensures that energy savings claimed have indeed materialised and needs checks to ensure:
  - No outright fraud e.g. measures were actually installed; obligated companies must have a fraud prevention strategy
  - Measure has been properly installed e.g. approved product installed by accredited installer (N.B. use well established trade professional standards – don’t invent new ones)
  - Installation meets technical quality (on random basis to ensure professional requirement standards have not slipped)
Monitoring and Verification (M&V) - 2

- What if a technical failure or a fraud is identified?
  - Any technical check that fails the random inspection must be remediated quickly or the measure will not be eligible; installer likely to be checked again soon
  - Any outright fraud attempt (including product or installer not professionally accredited) will require closer follow up of both installer and energy company to identify source of problem
  - A zero tolerance to fraud must be adopted
• M&V approaches depend on energy saving measurement option e.g.
  — For large projects with before/after monitoring can rely on independent professional monitoring
  — For scaled engineering estimates, periodic checking of independent estimator that “still up to the job”
  — For deemed energy savings sampling is balance between perfection and minimising cost
Sample Monitoring Requirements of Ofgem

CERT Monitoring Requirements 2008-12 *(Source: Ofgem Supplier Guidance Manual)*

- 1% customer utilisation monitoring for electrical items, DIY* loft insulation, and DIY radiator panels provided to householders for free
- 5% technical monitoring for professionally installed insulation and heating measures. NB technical monitoring is not required for microgeneration measures installed under the Government’s Microgeneration Certification Scheme
- 1% customer satisfaction monitoring for professionally installed insulation, heating measures, and microgeneration measures.
- 5% - or a statistically significant sample, whichever is smaller - utilisation and evaluation monitoring of behavioural measures (e.g., advice and smart metering)

* DIY (Do-It-Yourself) refers to self-installation
What happens if energy saving target is missed?

- Only the penalty framework has been used in the EU
- Very few instances where an energy company has missed its total energy saving target
- Approach to penalties varies widely across Europe
- Fixed penalty set in advance, e.g. France and Ireland
- Penalty to be proportionate to the shortfall in energy savings but not defined in advance, e.g. Italy and UK
- France established a clear penalty for each kWh that was missed from its energy saving target at level twice the expected cost estimated by the French Government; but penalty level has in fact been five times the estimated cost to the energy suppliers of the White Certificate.
Undefined Penalty Approach – UK 2013 Experience

• In principle, a British energy supplier could have been fined up to 10% of the group turnover
• As new experience took nearly 2 years to establish actual fines
• First – all energy suppliers had to make up their shortfall by additional measures quickly
• Second (much later) - largest fine was £28 million but most were ~£10 million or less and the magnitude of the fines was nowhere near 10% of group turnover
• Nature of fines varied and sometimes was simply either a donation to a charity clearly linked to low income customers or to deliver benefits to this customer segment alongside a nominal £1 cash penalty payment to the Energy Regulator.
Final Thoughts on Administrator Role

- Crucial to success of EEO and must be legally empowered
- Avoid excessive bureaucracy by KIS and use of deemed and scaled engineering estimates of the energy savings
- Rigorous M&V ensures real savings achieved and that EE experience by end user is a positive experience
- Administrator should use established professional competence specifications for installers and similarly for product specifications – avoid the EEO administrator defining such specifications if possible (KIS)
- Random sampling is a trade off between perfection on energy savings achieved and cost of M&V
- “Intelligent” fines which make good any energy saving shortfall in the target plus further insulation or low income support are preferred
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