

## Contents

MEELS - We speak with  
forked tongues

The Municipality as a  
consumer

Signing on the dotted  
line

Spain - Liberalisation  
means concentration

Contact Points

France: A situation of  
contrasts but some ideas  
are starting to take hold

The Netherlands:  
Municipalities take the  
baton with Climate  
Covenants

Workshop in Barcelona -  
27th-28th September 2001

## MEELS: We speak with forked tongues

When George W. Bush announced that Kyoto is dead, he released a storm of protest from the rest of the world. Presented with a *bête noire*, the other countries laid aside their differences and there is finally hope that Kyoto will be signed. Bush was then forced to back-pedal a bit saying that energy saving was still the order of the day. However with renewed authority granted for his fight against the perpetrators of the World Trade Centre atrocity, questions will again be asked about our dependence on energy resources found in unstable regions of the world.

The European Union has just published a draft directive on energy in buildings which proposes new standards for the total energy performance in new buildings and major renovations. The proposed directive also proposes regular inspections of boilers and the energy labelling of public buildings. The use of energy in buildings represents 40% of energy demand in the European Union.

Interest in regulation seems to be growing in the liberalised market in Europe. The term deregulation – often used for liberalisation, is a misnomer. In fact, it should be easier to regulate to impose higher standards in Europe when the market is controlled by large enterprises in competition, even multi-nationals, than with large nationalised monopolies. The situation in the USA seems a bit the reverse. In California the municipal utilities still have a monopoly within their service areas and have provided the one ray of stability in a chaotic market.

Municipal management of its own stock of buildings represents a major resource for energy saving. Their role as a client is however often left to the municipality's purchasing department which can find major cost savings in a liberalised market. Municipalities will therefore tend to form consortia to obtain the benefits of bulk purchasing. This approach to energy purchase in itself represents a particular view of the function of an

energy client. There is a close relationship between capital investment costs and running costs as far as energy is concerned and looking for the cheapest (and/or greenest) supplier is only one side of the coin. Investments to save revenue money are also important. The financial arrangements affecting municipalities are key. Most municipalities work on an annual budget and savings made one year cannot be carried over to the next. This results in a mad rush to spend unspent moneys at the end of the financial year. Even if a separate revolving fund is set up, the local authority may often be tempted to raid this to meet a temporary cash starvation. But this type of short term viewpoint is regrettable since investments in energy saving can be most profitable, especially if they are made when renovation work is being carried out for other reasons (adaptations to new uses, improved comfort, prestige....).

The ideal solution is to give the responsibility for monitoring use, paying the bills and investing in improvements to one integrated team as has happened in Leicester and Newcastle-upon-Tyne, and to charge them with the responsibility of getting results. Like all businesses they will find the most profitable place to invest their limited resources in energy saving and the profits will then return to the municipality. Where this is not possible, it is worth looking at ESCOs which, in effect, take this integrated approach on behalf of the client but also take an element of the profits too (that is why they are in business). The problem is that the local authority must prepare its own energy audits or appraisals if they wish to put buildings out to ESCOs since they cannot guarantee a company a contract if it has, as is usual, to go out to an open tendering procedure. This is a big cost up-front and it may be difficult to persuade the local authority to spend such money. Monitoring energy use over a period of time so that priorities can be established is another, time consuming and labour intensive overhead cost that has to be borne by the local authority (contd. page 4).

## Spain: Liberalisation means concentration

The liberalised electricity market in Spain was introduced by Electricity Law 54/97 and started operation on 1<sup>st</sup> January 1998. Initially the market was opened to consumers using more than 15GWh per year (including the operators of the electricity transport systems). These totalled 570 and represented 28% of the market.

However it was soon decided to open up the market more rapidly than initially planned, and the threshold for eligibility was reduced in progressive steps down to 1GWh during the period January – October 1999. At this point 9 000 consumers were eligible representing 45% of electricity consumption. On 1st July 2000 this was further extended by Royal Decree 6/99 to all those using

electricity from a high voltage supply – the number of consumers then became 65 000 and represented 55% of the market. Royal decree 6/2000 has finally opened the market to all consumers from 1st January 2003

The pressures of liberalisation have produced a concentration in the market – with four main players – Grupo Endesa (43%), Ibedrola (38%), Union Fenosa (15%) and Hydro Cantabrico (4%). However new players are now entering the market (Enron, Gas Natural, Repsol). A nationalised company, Red Electrica owns and acts as system operator of the main 440 kV grid network, and about one third of the 220kV grid network.

### ...continued from page 1

Financial conditions and the willingness or ability to think long term are also important factors. In Eastern Europe, with interest rates over 10% and up to 25%, there is no incentive for municipalities to borrow money for energy saving and returns have to be very rapid to be economic. The town of Jablonec went down the ESCO route but the actions are limited to improved heating management – most insulation has too long a payback to be anywhere near viable. Nevertheless they have managed to obtain savings of about 23% overall in the buildings treated. In Germany, by contrast, with an interest rate of a few per cent, one can plan for a 10-15 year period and insulation investments through Warm-Contracting are routine.

## ...Contact Points...

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### Some Websites of interest

www.ademe.fr, www.novem.nl,  
 www.stem.se, www.energie-cites.org,  
 dsm.iea.org, www.ambit.nl

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## France: A situation of contrasts but some ideas are starting to take hold

France has expressed reservations about the new draft directive on electricity that the European Commission had prepared for the Council meeting in Stockholm last March. It refuses to accept that a firm deadline of 2005 should be imposed for the complete opening of the markets for electricity and gas. At present the opening of markets only affects consumers with a consumption of over 16GWh.

Nevertheless some organisations are steadily getting ready for a progressive opening of the market to competition and more and more interests are coming to consider that a slowing down of the process would penalise French energy companies and in the end everyone. Thus EDF is pushing for a more rapid opening of the market. Even the transport network, (RTE), which is still part of EDF, has launched a European call for tenders in order to compensate for transmission losses (10 TWh) and a third of the electricity needed will be bought from foreign, non-French suppliers. That is quite a symbolic act! At the same time the Chairman of the Commission of Electricity



Energy efficiency in the Netherlands has become a task that local authorities must fulfil

now that the energy companies are being privatised and are abandoning their energy efficiency programmes. The national government has developed the so-called Climate Covenant in order to set up a framework within which local authorities are encouraged to carry out an energy efficiency policy.

The Climate Covenant will look like a menu card. It will offer several themes, which are divided into three ambition levels. Depending on how municipalities choose to design their energy policies from these themes and these ambition levels, the national authority will grant budget support. The Climate Covenant has been subject to hard negotiations between the national government and the Association of Dutch Municipalities. Although agreements have not yet been reached, it is expected that the covenant will be presented officially in the near future.

Regulation has declared that „ We are there to manage competition. The wider it is, the happier we will be.”

There are more and more conferences and articles in the press which encourage a wider understanding of the context of liberalisation by different sectors of society.

However many of these interests, (SMEs, local authorities etc.) do not feel involved in this process and imagine that this only concerns very large consumers. This could in the end create difficulties for those municipalities which have not sufficiently anticipated this situation. Energie-Cités, and also associations such as the AIVF, the Association of French Municipal Engineers, AMORCE which concentrates on district heating and AGEMO which promotes geothermal energy are disseminating information to municipalities regarding energy demand management and renewable energy.

## The Netherlands: Municipalities take the baton with Climate Covenants

The main current point of discussion between the Dutch Parliament and the Minister of Economic Affairs concerns the privatisation and sale of the distribution networks. Although forced to constitute separate holdings for their networks, energy companies can sell these networks. A special, independent institution called DTe has to ensure that the grid is accessible, the transport rates are fair and that customers can obtain the energy they need. Resistance in parliament grew because it is feared that the supervision will not be strong enough to make sure that the necessary investments are made in the grid. Therefore the Minister formulated additional requirements and now has to approve any sale of shares in energy companies by regional or municipal authorities. Nevertheless opposition to the privatisation of the distribution networks has not yet been overcome. The Minister and the energy companies by contrast argue that Dutch energy companies cannot operate on the European market if privatisation of the distribution grid is prohibited. Finally it was announced on April 4th that Parliament and the minister have reached a compromise. The grid will remain under the jurisdiction of the local and regional authorities, but its value may be added to the financial balance of the energy company.

## Workshop in Barcelona: 27th -28th September 2001

Experts from the Netherlands, France and Spain met in the ICAEN office in Barcelona to appraise the conclusions of the second and third phases of Task IX. In addition municipal representatives were present from Utrecht, Almere, Nijmegen (NL), Dunkerque and the association AMORCE (F), Odense (DK) and Milton Keynes (GB) to present their input to the conclusions.



Draft analyses of the roles of municipalities and the impacts of liberalisation in France, the Netherlands and the United Kingdom had already been prepared and circulated to participants and formed the basis of discussion. A number of key issues came out of the discussion and made an important contribution to the approach.

The direct involvement of municipalities in production, distribution and district heating, either via municipal services or via wholly owned municipal companies, is steadily being eroded. This is an inevitable consequence of liberalisation. Production and distribution enterprises are merging to form larger units and even where municipal ownership is retained, each municipality has a smaller share and less direct interest in the activities of the utility. Where municipalities have the option of selling, they are tending to do so. Such competitive utilities are more concerned with maintaining profitability and are unlikely to apply the resources needed to act as a tool of municipal policy.

Utilities are everywhere retreating from promoting energy efficiency. Local authorities are just beginning to examine their role as a granter of a concession in countries such as France, Germany and Austria. This represents potentially one of the most effective regulation tools to obtain funding for improving energy efficiency at local level, and energy efficiency is an activity that takes place at local level. Current moves in Germany to abolish this role must therefore be viewed with real concern.

While the distribution role is of declining interest, the role of the local authority as a direct consumer of energy is becoming dramatically more important. Previously energy purchase was a simple matter of

paying the fixed price and quibbling about meter readings. Now competitive purchase has become a major issue in the UK as the market has progressively opened to local authority sites. Jeremy Draper of Milton Keynes reported that he had saved hundreds of thousands of dollars from competitive calls for tender. At the same time it has become more and more difficult to justify energy saving investments due to the reducing price of energy.

However at the same time going out to tender offers opportunities since it involves the need for accurate information on consumption. But all this requires expertise that is not available in small local authorities - in effect this is a battle of the big boys. Local authorities have to reorganise to compete on a level playing field. Municipalities need to operate in consortium to provide a better negotiating position and the resources to provide the necessary expertise for analysing consumption and energy saving opportunities. Milton Keynes is a member of a consortium of authorities covering 10 million inhabitants in the South East of England. The Best Value procedures in the United Kingdom now allow issues of quality of service, including the provision of energy efficiency improvements or advice, to be included in the appraisal of tenders.

At the same time it is apparent also that the role of local authorities in providing plans and strategies for energy saving at local level is being recognised. In the United Kingdom local authorities have obligations under the Home Energy Conservation Act, in the Netherlands the Climate Covenant procedure is creating locally determined targets for emissions saving and in France the role of the local authority sector in determining the framework for energy policies at regional level has been accepted in the legislation.

The workshop minutes will be prepared over the next few weeks and the conclusions incorporated in our analyses.



In order to enable us to present two reports to the Executive Committee in Milan next April the four participants agreed in principle to set a deadline of 31<sup>st</sup> December 2001 after which we will not be able to accept further participants into the Task.