ELECTRICITY ASSOCIATION OF IRELAND

Bridging the Gap:

Achieving Ireland's Article 8 Energy Efficiency Directive Targets

JUNE 2024

Introduction

The 2023 recast Energy Efficiency Directive (EED), which is collectively binding on EU Member states, raised the EU energy efficiency target by requiring an additional 11.7% reduction in final energy consumption by 2030 compared to the reference baseline.

The revised EED, to be transposed into Irish legislation by October 2025, will significantly increase Ireland's cumulative end use energy savings target under Article 8. Considerations are underway as to how best Ireland's target can be achieved between an Energy Efficiency Obligation Scheme (EEOS) and Alternative Measures (AMs).

To assist in these considerations the EAI commissioned extensive research from an independent consultant, Ricardo Economics, on the alternative energy efficiency measures that could be explored and potentially implemented in Ireland. Such measures will be needed to achieve this higher energy savings target whilst benefiting our homes, businesses, and the environment.

The scope of this research included:

- Assessing the gap between current planned measures and the recast EED target for Ireland
- Evaluating the performance of the existing EEOS to date and the challenges it faces into the future
- Identifying alternative measures that could be implemented in addition to the EEOS

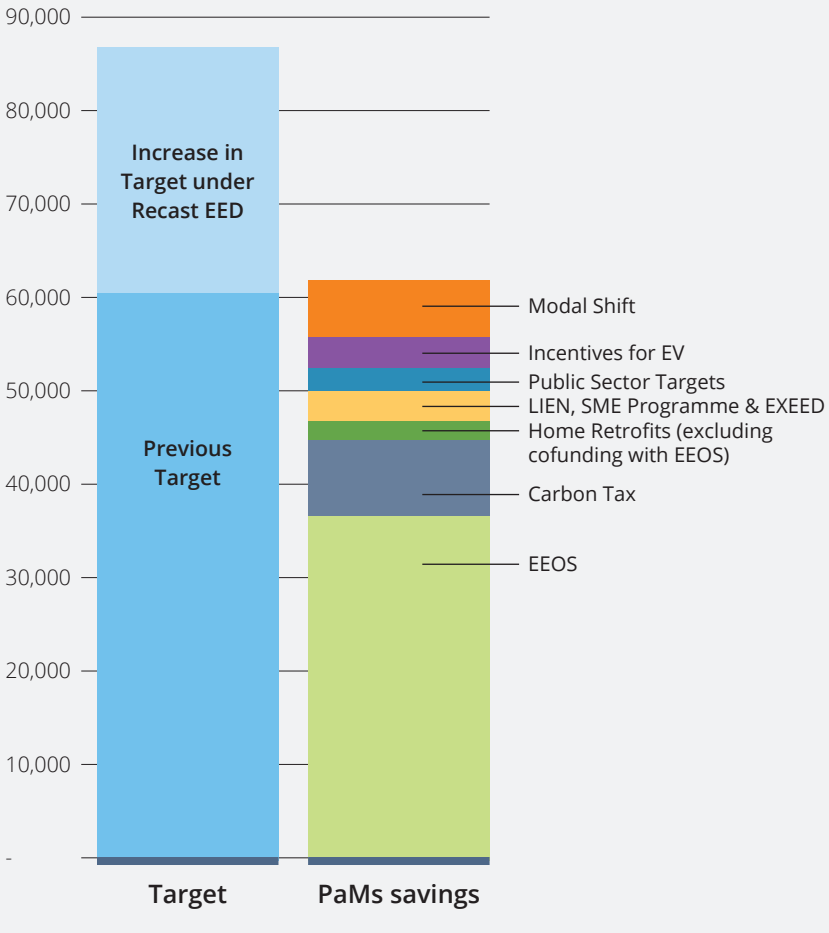
Gap to Target

The report conducted a high-level assessment of the gap between Ireland's recast EED target compared to current planned policies by combining the methodology set out in Art 8. of the recast EED with data from the EU database Reportnet and the SEAI.

The report identified a gap of **26,000 GWh** between existing and planned energy efficiency actions by Ireland and the required cumulative savings to 2030 mandated under the revised EED. This value represents 30% of Ireland's target.

In the previous operational period (2014 to 2020), the EEOS delivered 60% of Ireland's EED target. This compares to an average of 33% in EU countries[1] with some achieving their EED targets purely through alternative measures (i.e. without an EEOS).

Energy Savings Target vs Estimated Savings (GWh)



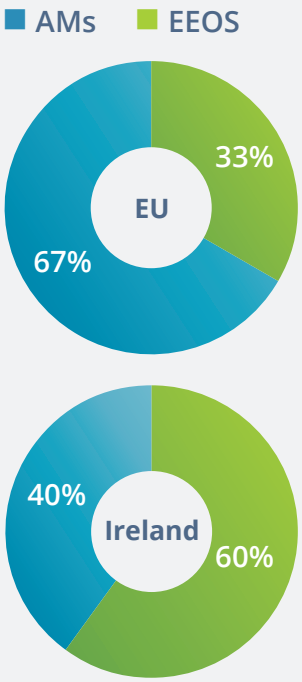
1 Report from the Commission to the European Parliament and Council on 2020 Energy Efficiency

Review of EEOS

While recognising the EEOS will continue to play a significant role in achieving the EED target in Ireland, alternative measures have significant potential to deliver energy efficiency savings for Ireland in a cost-effective manner.

As part of their review of the EEOS, as implemented in Ireland from 2014 to 2020, Ricardo Economics set out the successes of the scheme to date, and investigated the challenges that exist to its continued operation. The findings are summarised below.

Comparison between EU and Ireland EED savings breakdown



Successes of EEOS

- Delivered improvements to 290,000 dwellings
- Facilitated annual fuel cost savings of €240 million
- Saved 1 MtCO2e of equivalent carbon emissions per annum
- Contributed almost twice the EU average share of energy savings for an EEOS programme

Challenges to EEOS

- Decreasing volumes of dwelling stock eligible for retrofits[2] due to the early success of the EEOS
- Achieving retrofits is more difficult particularly in the energy poverty sector due to a change in legislation
- Rising costs of the scheme as savings are realised[3]
- Increasing upward supply side costs and shortages especially in labour and materials

EEOS into the Future

In light of the challenges set out above, it is clear that the EEOS will struggle to deliver the share of savings as seen in the previous obligation period. This may be exacerbated post-2026 if a new statutory instrument (SI) setting out the post-2026 EEOS framework does not recognise the challenges set out above. EAI looks forward to a full public consultation as part of the post-2026 revision to EEOS and during the transposition process of the recast EED.

Given the potential for Ireland to miss its recast EED target especially in the context of an expanded EEOS, EAI estimates show that the liability cost of EEOS could increase to **4.6 billion euro**.[4] As missed targets will have to be bought out by suppliers, or penalties applied, this increased liability cost could be placed on electricity customers.

In concluding that an expanded EEOS is not the optimal pathway to delivering Ireland's increased EED obligations, Ricardo Economics conducted an investigation on Ireland's current progress in delivering and reporting energy efficiency savings for alternative measures.

2 Based on distribution of BER values of the Irish building stock in Buildings Performance Institute report
3 SEAI commissioned analysis underpinning the 2021-2030 EEOS impact assessment
4 20240520 Overall Cost of EEOS 2024 to 2030.xlsx This calculation estimates the potential liability costs to Obligated Parties from 2024 to 2030

Investigation into Alternative Measures

Ricardo Economics carried out extensive research into alternative measures which are permitted in achieving Art. 8 obligations of the recast EED. Alternative measures are a broad category of policy measures implemented to improve energy efficiency. Alternative measures can include fiscal incentives, efficiency standards, education campaigns, and taxation.

Ricardo Economics focused on the following two areas as part of this investigation:

- Existing alternative measures already in place in Ireland but are not fully captured under the EED
- Alternative measures of several other EU countries and the alternative measures that could be implemented in Ireland

The alternative measures which are currently being undertaken in Ireland and for which their energy efficiency credits may not have been fully captured under this Directive are listed on this page. These "Quick-Win" measures must be fully accounted for where possible. As the EED target is cumulative (i.e. the earlier measures are implemented the better), accelerated action is of critical importance.

- Public Lighting Energy Efficiency Project (PLEEP)
- IDA and Enterprise Ireland financial assistance schemes
- Smart Meter Roll-Out
- Home renovation tax incentive[5]
- Green Mortgage & Home Energy Upgrade Loan Scheme
- Railway electrification (All-Island Strategic Rail Review)
- Origin Green/SMART Farming
- Targeted Agricultural Modernisation Scheme (TAMS)

Having considered alternative measures within an Irish context, the consultants proceeded to analyse alternative measures implemented by other EU Member States as part of their EED obligations. Ricardo Economics chose six Member States based on their similarity to Ireland's dwelling stock, share of EEOS / AMs and other characteristics illustrated in the table below. Over 100 possible alternative measures were identified from these countries that may be applicable to Ireland having satisfied relevant critical success factors.

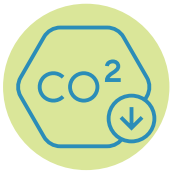
Member State	Heating Degree Days index (N)	Share of urban centres (%)	Share of residential buildings (%)	Share of block apartments (%)	Share of Art 8 target to be delivered by AMs (%)	Number of AMs reported (2016)
Belgium	2,377	21%	73%	6%	100%	22
Germany	2,736	22%	52%	10%	100%	112
Ireland	2,549	23%	82%	37%	40%	9
Italy	1,735	22%	85%	17%	38%	2
Netherlands	2,396	35%	63%	4%	100%	29
Spain	1,478	26%	57%	44%	56%	13
Sweden	4,919	16%	73%	10%	100%	1[6]

From this longlist, key measures were then selected, across several sectors, as being the most appropriate for Ireland. A summary of these key alternative measures are included on the next page.

5 This measure concluded in 2019 but could be reintroduced and counted as an AM

6 Sweden only accounts one financial alternative measure towards its EED obligations but implements other energy efficiency measures

Shortlist Measures

 Low Emission Zones and modal shift supports	Low Emission Zones have been implemented in a number of cities and have reduced the use of inefficient vehicles.
 Training in energy efficient driving	Such a scheme would affect the whole fleet, rather than just new sales. Could form part of driver lessons as part of driving license training.
 Reduced speed limit and educational campaign	The reduction of speed in urban areas will have a direct impact of energy usage and increase the safety of road users.
 Electrification of Rail	The All-Island Strategic Rail Review outlined a number of rail routes that have the potential to be electrified. The accelerated implementation of such infrastructure would provide energy efficiency savings.
 Reducing public transport fares	Encourage modal shift toward public transport through lowering fares thus reducing overall energy consumption.
 HGV tolls and charges	Cost per kilometre charges. These strengthen incentives for both modal shift, investment in more efficient vehicles, and improved logistics.
 Home valuation system linking asset values to efficiency	Measures which strengthen the link between property prices and energy efficiency create strong, long-term incentives to invest in improvements.
 Heating system information and servicing requirements	Measures aim to achieve energy savings by ensuring heating systems operate as efficiently as possible through mandated servicing requirements and education.
 Additional measures during transposition of recast Energy Performance of Buidlings Directive (EPBD)	In tandem with obligations for new energy efficiency funding schemes, other energy performance standards may be implemented during transposition of EPBD.

Post 2026 EEOS Recommendations

From the analysis of Ricardo Economics, Ireland is an outlier in terms of its dependence on an EEOS to achieve its EED obligations. It is apparent that other countries can satisfy their EED obligations through a greater share of alternative measures with some achieving their targets without an EEOS.

It is evident that there exists a level of ambiguity as to whether the existing alternative measures in Ireland identified above are fully captured as part of Ireland's Art. 8 obligations. Given Ireland is not on track to meet its targets, these existing alternative measures must be fully investigated to ensure they are contributing to the EED obligations where relevant.

In the absence of such action, Ireland will face steeper energy efficiency obligations. Ireland's obligations consists of three-year energy efficiency target intervals with the failure of a previous period being loaded onto the next interval. Therefore, accelerated action is needed especially through the full accounting of the "Quick-Win" measures.

In the context of the suite of alternative policy measures identified above, Ricardo Economics outlined that implementation of such policies is the most cost-effective and efficient pathway to achieve our 2030 EED targets. However, there are a number of practical measures that can be introduced to the post-2026 EEOS framework which deserve greater examination. While all of these measures do not guarantee success, they merit greater investigation to improve the EEOS.

These include:

1. Investigate alternative measures for the increased ambition of the recast EED rather than an expanded EEOS to 2030

An expansion of the EEOS would exacerbate many of the challenges identified earlier thus driving up the costs of achieving energy efficiency savings through EEOS. An expanded EEOS would force obligated parties to pass on these costs (whether it be increased retrofit costs or credit buyouts) through to bill payers thus creating a regressive funding model.

This report notes that while an expanded EEOS may *"deliver savings to those installing measures; households not installing measures will face increased energy costs and may be put at a greater risk of energy poverty."*

2. Expand Eligibility for EEOS

Broadening EEOS requirements, especially on the depth of energy-poor retrofits would facilitate the delivery at lower cost, support more energy-poor households, and deliver savings more quickly.

3. Broaden BER requirements on energy poverty measures[7]

The current requirement does not accurately capture all households that may be in energy poverty. Such a revision could improve EEOS delivery for energy poor households.

4. Promote and support retrofit-related training

Reducing fees for courses and supporting apprenticeships in areas such as heat pump installation and other retrofit activities would improve uptake. Increased uptake and qualification would ease labour shortage issues being experienced.

5. Encourage registration of uncaptured energy efficiency measures

There is a significant cohort of homeowners who have completed energy efficiency measures without grant assistance. EAI believes that these measures could be captured through a registration scheme with incentives provided by SEAI or in combination with Suppliers. Incentives for reporting of improvements could include a reduced cost BER. There may also be opportunities to tie this in with property sales.

6. Reflect the challenges outlined above in the upcoming transposition of EED

7 This recommendation is also shared by a recent energy poverty report from the Joint Oireachtas Committee on Social Protection

What needs to be Done

Our research concludes that Ireland is not positioned to achieve the increased ambitions of the recast EED. There exists a 26,000 GWh gap between the recast EED target and current projected measures of cumulative energy savings for Ireland to 2030.

Transferring this gap onto an expanded EEOS could result in a financial cost of up to **4.6 billion euro** on obligated parties. There is the likelihood that these costs could be passed onto end customers whether caused by increased costs associated with retrofitting or financial buyouts.

Such a scenario would increase energy costs across all income brackets to support the installation of energy efficiency measures in a limited number of dwellings. This is a regressive funding model and may exacerbate already existing energy inequalities. Therefore, spreading the increased targets onto an expanded EEOS should not be the default decision.

Ireland's relatively low use of alternative measures offers a potential solution to this gap. Ricardo Economics identified several alternative measures currently in place in Ireland that may not be fully counted towards Ireland's Art. 8 obligations. These "Quick-Win" measures must be fully accounted for where possible.

Additionally, Ricardo Economics completed a comprehensive analysis of Alternative Measures in place in six other comparator EU countries. From a longlist of over 100 Alternative Measures, a shortlist of measures most applicable to Ireland are outlined and assessed further in their full report.

Given the current challenges within EEOS experienced by obligated parties, a decision to spread the increased ambition onto an expanded EEOS should not be the default choice to absorb the increased EED ambition. Such a decision will exacerbate the challenges within EEOS and jeopardises the delivery of Ireland's Art. 8 obligations.

To avoid this scenario, the EAI recommends that SEAI and DECC:

- Conduct a comprehensive review of all existing energy efficiency measures by state agencies and ensure that they are fully captured under Art. 8 alternative measures
- Investigate alternative measures that have been implemented in other EU countries as shortlisted in the full Ricardo Economics report
- Establish an extensive range of alternative measures to achieve Ireland's EED obligations to 2030
- Avoid an expanded EEOS scheme to deliver these targets and such a move should not be the default choice for the expanded recast EED

Failure to implement these recommendations will result in increased costs on obligated parties with the potential risk of such costs being passed onto customer electricity bills.

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