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Related documents: CC 643, Mess. 1468/18

DECISION OF THE ENERGY CHARTER CONFERENCE

Subject: Adoption by correspondence - Recommendations of the In-depth Energy Efficiency Review of Montenegro

By document CC 643 dated 5 December 2018, the Energy Charter Conference was invited to welcome the report on the In-depth Energy Efficiency Review of Montenegro and endorse the recommendations made to the Government Of Montenegro without prejudice to discussions and considerations relating to energy efficiency within the framework of the Energy Community. As specified by Rule 19(b) of the Rules of Procedure concerning the adoption of decisions by correspondence, members of the Energy Charter Conference were informed that any delegation that wished to object to this decision should notify the Secretariat of its position in writing by 25 December 2018.

Having received no objections within the specified time limit, on 25 December 2018 the Energy Charter Conference **welcomed** the report on the In-depth Energy Efficiency Review of Montenegro and **endorsed** the recommendations (attached) made to the Government of Montenegro without prejudice to discussions and considerations relating to energy efficiency within the framework of the Energy Community.

Keywords: In-depth review, Energy Efficiency, Montenegro

**RECOMMENDATIONS OF THE IN-DEPTH ENERGY EFFICIENCY REVIEW
OF MONTENEGRO**

General Recommendations

1. Update the Energy Development Strategy until 2030 to include outcome oriented long-term targets and objectives for energy efficiency and demand-side management.
2. Establish a new short-term energy efficiency target as soon as possible. Ensure coordination and coherence between the Energy Development Strategy until 2030 and the EEAPs with regards to estimates of potential energy savings and targeted end-use sectors.
3. Prioritise full transposition and implementation of the framework Energy Efficiency Directive 2012/27/EU and other energy efficiency acquis. Beyond achieving minimum requirements, identify and implement actions (greater ambition and/or additional/complementary measures) that can yield the highest net benefits, particularly job creation and new opportunities for small and medium enterprises (SMEs).
4. Take action to improve implementation of energy efficiency policies and measures, such as:
 -) Improving institutional arrangements, and establishment and protection of stable revenue streams. It may be advantageous to separate the policy development, policy implementation, and policy evaluation functions of the Directorate for Energy Efficiency, which is more likely to be successfully achieved by placing responsibility for implementation and evaluation with separate new or existing entities independent of the Directorate, ideally with legal basis¹.
 -) Ensure effective feedback loops by improving coordination between the development, implementation and the evaluation of energy efficiency policy, energy sector strategy development and energy system planning. Disseminate monitoring and evaluation results widely, including via the internet.
 -) The funds for implementation of energy efficiency policies, programmes and measures need to be separated from the general budget of the Directorate and ideally should be based on stable revenue streams e.g. public benefit charge on electricity rates, taxes. Establishment of the Eco-Fund may provide the opportunity to achieve this, so long as management of its funds is transparent and funds for energy efficiency are clearly earmarked and tracked.

¹ A number of options are possible, each with pros and cons. For more information see: IEA Energy Efficiency Governance handbook 2010
http://www.iea.org/publications/freepublications/publication/gov_handbook.pdf (accessed June 2018)

5. Explore ways to strengthen the coordination of policy development relevant to energy efficiency, whether being led by the Directorate of Energy Efficiency or not. Ensure effective engagement and coordination of relevant Directorates and Ministries in order to develop more coherent and impactful policy e.g. develop and adopt joint strategies, programmes, measures.
 -)] Develop and adopt principles that pursue the least cost energy system development by employing energy efficiency and Demand Side Management (DSM) when more cost-effective than supply-side options. In energy system planning, ensure all energy resources, including energy savings gathered through efficiency measures, are properly assessed to meet existing and future energy demand. Appoint an employee of the Directorate of Energy Efficiency who should be held accountable for these principles and embed this in legislative framework.
 -)] Ensure transparency of decision-making related to the strategic planning and public finance support of Montenegro's energy system, including studies and modelling used to support decisions. Engage regional and national technical/academic resources in the strategic planning process.
6. Improve the general investment conditions of the country in accordance with the EU acquis:
 -)] Ensure Public-Private Partnership regulatory framework is in place and implemented;
 -)] Use competitive tenders and auctions for energy efficiency services in order to develop the ESCO industry.

Recommendations: Power Sector

7. Prioritise the measures targeting the reduction of distribution electricity losses to the allowed level. The DSO, CEDIS should be provided with additional incentives and support to efficiently fight commercial losses. The reduction of the distribution losses to the allowed level can additionally contribute to the country's economy with more than €18 million revenue per year. Thus, the costs needed to speed up the reduction of the losses should be evaluated against the benefits for the economy. According to the Articles 7(2) and 7(3) of the Energy Efficiency Directive, the reduction of losses in the distribution network can be also used for up to 25% reduction of the amount of energy savings calculated according to the Energy Efficiency Obligation (EEO) scheme.
8. Conduct further reforms supporting the competition on the electricity supply market. The expected further integration of Montenegro's wholesale electricity market into wider regional markets will put downward pressure on the wholesale electricity price but the benefits will likely not pass through to Montenegrin electricity consumers if they only have access to one supplier. The price reductions that come with more competitive markets are a crucial counter-weight,

- in terms of achieving public acceptance, to new charges that may need to be added to consumer bills to support interventions such as energy efficiency programmes (even if they provide net benefits).
9. Prioritise the development of the TSO and DSO study on the potential application of EE measures at the demand side. Based on the results of the study, introduce amendments to the TSO and DSO tariff methodologies in order to use the least cost approach of the network development. Both the TSO and DSO can be required to pursue a least cost approach to network/system development and investment by properly assessing and exploiting EE and DSM solutions. The Regulator should be more proactive in mobilising DSM by imposing obligations on the TSO and DSO. The TSO and DSO can be also mandated to deliver energy savings as a part of the EEO scheme as they have an overall access to the information on network congestion and need for location of demand reduction.
 10. Network operators can be required to encourage demand side participation in ancillary service auctions by improving procedures and communications. The TSO should ensure that adequate information concerning timetable of expected auctions for ancillary services, rules for participation, minimum technical requirements (including aggregation), application forms and pro forma of contracts are clearly advertised on their websites.
 11. The Regulator should review electricity tariff design taking into account available studies in order to align with Article 15 of the EED. Customers' tariffs should encourage efficient consumption of energy and response to actual power system needs.
 12. Review the scheme for providing subsidies for vulnerable consumers in order to ensure much greater targeting of subsidies to those in real need. Ensure the design of the subsidy mechanism encourages energy efficient behaviour, for example, by weighting support more heavily on the first units of electricity consumption, declining as consumption increases. Drawing from EU best practices and EPOV, use the subsidy mechanism as a means to gather necessary information that can be used to design and deliver effectively targeted energy efficiency measures for vulnerable households. Decide which authority or market actor will be responsible for overseeing and delivering the initiative. Energy Suppliers can be also mandated to deliver energy efficiency measures for vulnerable consumers as a part of the EEO scheme.

Recommendations: Industry

13. Appoint a responsible authority for the implementation of the energy audit system, training/certification of experts and monitoring of the implementation of the audit system in the country. The responsible authority should also facilitate and promote the implementation of the measures identified in energy audit reports.
14. Include industry in the calculation of EE targets for future periods, i.e. 2019-2030, and in the future Energy Development Strategy and EE Action Plans.

15. Transpose the requirements of the EE Directive related to the introduction of mandatory energy audits of large enterprises, amending the Law on Efficient Use of Energy accordingly. Introduce restrictive measures including fines for non-compliance with mandatory energy audit requirements and recycle the revenue from these fines to fund the energy audit system. Adopt international standards for conducting energy audits and for establishing energy/environmental management systems.
16. Establish training and certification schemes for energy auditors for industrial enterprises. Design an energy audit system as a self-funding instrument, where the revenue from conducting trainings and accreditation of energy auditors covers the costs related to its management and quality assurance.
17. Identify actions to facilitate the supply of and access to finance in order to enable industry's finance and implementation of EE measures identified in energy audit reports.
18. Develop support programmes to promote energy audits among SMEs, i.e. tax exemption or direct financial incentives to support the implementation of EE measures based on the results of the conducted energy audit, awareness raising campaigns, etc.
19. Increase awareness of ministries' decision-makers and civil servants, energy sector stakeholders and the public regarding the multiple benefits that EE measures in industry can deliver, i.e. creation of new jobs, attracting new investments, increasing of export, etc. using real evidence and case-studies.
20. Develop support mechanisms for producing modern EE equipment. The support mechanisms can include new incentive measures, subsidised loans, tax exempts etc., for example the introduction of tax holidays for the production high efficient solar water heating systems in the country.

Recommendations: Buildings

21. Update the Minimum Energy Performance Requirements (MEPR) to include requirements on overall energy performance rather than provisions on separate building elements. Gradually make more stringent MEPRs to achieve nearly zero-energy buildings target according to the requirements of the Energy Performance of Buildings Directive.
22. Enhance the implementation of the MEPR and energy performance certification scheme. Design the Energy Performance Certificates scheme as a self-funding mechanism, where the revenue from issuing Energy Performance Certificates covers all costs related to its management and quality assurance. Design the Energy Performance Certificates software in such a way that the collected information on buildings' energy performance is automatically available for the Statistical office of Montenegro and for a wider decision-making process.
23. Conduct a study on the potential utilisation of solar thermal systems especially in the regions with high solar radiations and the deficit of network capacity. Evaluate the potential of solar water systems to contribute to the electricity system

- development in a more cost-effective way, comparing to supply-side option (see Recommendation 5).
24. Develop a supporting mechanism for the installation of the solar thermal systems in the residential and service sector. Evaluate the costs of running this support scheme against the multiple benefits for the Montenegrin economy, creation of jobs, increase of investments, increase of electricity export, decrease of electricity consumption during peak hours and investments in the network reinforcement, promotion of sustainable tourism, etc. Consider opportunities for the creation of additional incentives for local producers of solar water heating systems (see Recommendation 20).
 25. Introduce incentives for local authorities and the owners of public buildings to reduce energy consumption and implement energy efficiency measures. The local authorities should be allowed to use energy savings for the repayment of investment in EE and once the debt has been repaid, to keep the energy savings each year.
 26. Conduct targeted campaigns to improve the awareness of consumers about their historical energy consumption and promote no-cost or low-cost measures to reduce their energy bills. Ensure that the requirements of the EED on easy access to information about consumers' historical consumption (up to a three-year period) is fully implemented. Awareness raising campaigns on no-cost and low-cost measures to reduce energy bills could be based on international best practices and promoted nationwide.

Recommendations: Energy-Using Products

27. Assign direct responsibilities to a relevant governmental authority/department for overall control and implementation of ecodesign requirements. Provide sufficient resources appropriate to the fulfilment of such responsibilities. Continue enhancing the capacity of involved stakeholders on efficient implementation of ecodesign requirements and market surveillance. Strengthen the cooperation and coordination of activities between all involved stakeholders (see Recommendation 4).
28. Prioritise the adoption and implementation of ecodesign requirements as one of the highest impact EE policy measures to achieve future EE targets.
29. Improve the collection of statistical data on imports and sales of energy-related products. The statistical information should be a basis for the calculation of achieved energy savings as a result of the implementation of ecodesign and labelling regulations.
30. Prioritise the programme and measures promoting the installation of efficient household heating appliances as they are currently the most important source of air pollution in the country.

31. Provide general support and assistance for facilitating a higher take of highly efficient products and appliances, including the following:
 - J Continue improving the implementation of efficiency criteria in procurement procedures for energy-related products;
 - J Facilitate accelerated implementation of 'low-hanging fruit projects' i.e. easy to implement projects with a short payback period, such as replacing incandescent lamps with LED lamps in public buildings, installation of automatic control for heating/cooling, etc.;
 - J Promote use of the ESCO/EPC model for product replacement investments at sufficient scale;
 - J Develop targeted awareness-raising campaigns to enhance awareness of final consumers on the benefits of using more energy efficient appliances.

Recommendations: Transport

32. Assign clear responsibilities to a relevant governmental authority/department for the overall control and implementation of energy efficiency measures in the transport sector. Provide sufficient resources for managing such responsibilities (see Recommendation 4).
33. Promote the use of public transport by improving its comfort, accessibility and affordability. Explore the cost-benefits of adding new routes and creating dedicated road space for buses so they can avoid traffic jams, particularly in tourist destinations. Promote sustainable transport, including an obligation on the airport and airline companies to promote public transport travels to/from the airport.
34. Explore options to further restrict or influence vehicle imports to favour vehicles that are more fuel efficient and of lower emissions, taking advantage of the improving fuel efficiency and emissions performance of the EU market.
35. Continue the policy of setting eco charges and re-introduce the eco charge for petroleum products. The revenue from the eco charges should be a source of revenue for the Eco Fund. Transparency in relation to spending of Eco Funds, particularly vis-a-vis improving the energy efficiency and reducing the environmental impact of the transport sector, will facilitate public acceptance of the eco charge on fuel.
36. Link annual taxes for vehicles to CO₂ emissions according to EU best practices. Provide incentives to promote the most efficient cars on the market, including hybrid and electric cars, using mechanisms such as feebates. The taxes can be a source of revenue for the Eco Fund.
37. Conduct targeted campaigns to promote measures related to behavioural changes, including eco-driving, car-sharing and proper vehicle maintenance.