

**ENERGY CHARTER
SECRETARIAT**

CCDEC 2019

11 EEF

Brussels, 10 December 2019

Related documents: CC 641, Mess. 1624/19

DECISION OF THE ENERGY CHARTER CONFERENCE

Subject: Adoption by correspondence - Recommendations of the In-depth Review of the Energy Efficiency Policy of the Republic of Azerbaijan

By document CC 661 dated 21 November 2019, the Energy Charter Conference was invited to welcome the report on the In-depth Review of the Energy Efficiency Policy of the Republic of Azerbaijan and to endorse the recommendations made to the Government of Azerbaijan.

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 10 December 2019.

Having received no objections within the specified time limit, on 10 December 2019 the Energy Charter Conference **welcomed** the report on the In-depth Review of the Energy Efficiency Policy of the Republic of Azerbaijan and **endorsed** the recommendations made to the Government of Azerbaijan with immediate effect.

Keywords: In-depth review, Energy Efficiency, Republic of Azerbaijan

**RECOMMENDATIONS OF THE IN-DEPTH REVIEW OF
THE ENERGY EFFICIENCY POLICY OF THE REPUBLIC OF AZERBAIJAN**

General Recommendations

1. Prioritise the development and approval of the long-term Energy Strategy. The Strategy should include ambitious, but realistic, long-term quantitative target and attainable objectives for energy efficiency (EE) and demand-side management. The Strategy should also recognise EE as one of the priorities for meeting and reducing future energy demand, increasing energy export revenues and other benefits as a result of achieving long-term EE targets. In this framework, the Strategy should also include the ‘energy efficiency first’ principle.
2. Prioritise the approval of the draft EE law and the timely adoption of the NEEAP and other legislative acts envisaged by the law. Continue ongoing efforts on the development of energy related legislative framework according to the Presidential Decree on “the Acceleration of reforms in the energy sector of Azerbaijan”.
3. Take action to improve the enforcement of planned energy efficiency policies and measures stipulated by the draft EE law, such as:
 - Define clear responsibilities and strengthen the coordination of EE policy development between different stakeholders;
 - Strengthen capacity and provide necessary resources to the authority responsible for the implementation of EE policy in the country. It might be advantageous to establish an entity on the basis of the existing Department of energy efficiency and ecology of the Ministry of Energy or a new entity responsible for the implementation of EE policy under the Ministry. The possibility to separate the policy development, policy implementation, and policy evaluation functions of the Department or a new entity under the Ministry should be analysed and assessed. An enforcement function should also be ensured.
 - 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. Develop internal communication rules in order to disseminate monitoring and evaluation results widely, including via the internet.
 - The Energy efficiency Fund, envisaged by the draft EE law, needs to be separated from the general state budget and ideally should be based on stable revenue streams e.g. tariff increases (public benefit charge), environmental taxes (e.g. transport fuels) or revenue received from exporting energy resources saved as a

result of the implementation of EE measures. The EE Fund can be also appointed as the key authority for the implementation of EE policies, programmes and measures.

4. Establish clear baseline, management information and benchmarking system in the EE field. This In-depth energy efficiency report can serve as a baseline for monitoring and evaluation of future progress in implementing EE reforms.
5. Approve and implement new energy tariff methodologies supporting the efficient use of energy, including the specific focus on the following provisions:
 - Clear incentive for energy utilities to reduce their operational costs;
 - Further improvement of the existing electricity tariff design in order to stimulate the efficient use of the existing electricity system, i.e. introduce prices depending on the
 - voltage and capacity, time-of-use pricing for all consumers; critical peak pricing, etc.
6. Enhance awareness of decision makers, civil servants and other stakeholders, on the multiple benefits that EE measures can bring to Azerbaijani society, i.e. creation of new jobs, attracting new investments, increasing of export, etc. using real evidence and case-studies.

Recommendations: Energy Sector

7. Conduct further reforms supporting functional unbundling and the development of electricity market, taking into consideration energy efficiency. Introduce competition in the electricity generation market and develop efficient regulatory framework incentivising the optimal capacity distribution among power plants in Azerbaijan in order to ensure reliable and the most efficient balance of electricity demand and supply.
8. Prioritise the reduction of specific fuel consumption and power plants own use. Introduce incentives for the management and the staff of the plant for improving overall plant efficiency and reducing fuel consumption. Increase transparency and regularly publish data on key performance indicators of power generating sector (see Recommendation 13).
9. Introduce specific long-term targets aiming at the improvement of efficiency of energy transformation, the reduction of losses in electricity, natural gas and heat networks.

10. Develop and approve methodology for ancillary services. Network operators can be required to encourage demand side, like aluminium and other heavy industry plants, to participate in ancillary service market.
11. Adopt policy measures to promote a wider application of high-efficient cogeneration and/or efficient district heating and cooling systems. Conduct cost-benefit analysis for the application of high-efficient cogeneration for installing new or refurbishing existing electricity generating units with a total thermal input exceeding 20 MW.
12. Initiate the development of a heat map that should include existing district heating capacities and waste heat from industry and power generation sector. Use the heat map for planning and development of district heating/cooling systems and efficient utilisation of waste heat.
13. Continue efforts on improving national energy statistics, including the following:
 - Improve the availability of statistics on natural gas losses with regards to the separation of transmission and distribution losses;
 - Improve the availability of detailed statistical information on the energy sector's own use, dividing this indicator into the own use of the power plants (as one of main energy saving indicator of power plants) and the final consumption by energy industry sub-sectors;
 - Introduce new statistical information on key performance indicators of power generating plants;
 - Align the electricity balance terminology with the best international practices (i.e. use of correct terminology for CCGT, TPP and CHP in energy balances);
 - Expand recently introduced EE indicators to all sectors of economy and adding indicators based on physical outputs per sector.

Recommendations: Industry

14. Define clear responsibilities for the development and implementation of policy measures targeting EE in industry (see Recommendation 3), including in small and medium size enterprises. Provide sufficient resources for managing the following key policy measures:
 - Mandatory energy audits for large industrial enterprises on a regular basis;
 - Incentives for small and medium size enterprises to carry out energy audits on a regular basis;
 - Energy audit and training/certification schemes for energy auditors;
 - Energy Management standards and certification procedures;
 - Financial incentives to encourage implementation of EE improvements.

15. Prioritise the adoption and the implementation of ecodesign requirements for industrial appliances. Start with the introduction of ecodesign requirements for the products that are less technically complex and contentious, but can potentially bring the highest energy savings for industry, such as power transformers, water pumps and electric motors.
16. Initiate the development of benchmarking studies on technical and economic energy efficiency potential in the industrial sector in general and strategic sub-sectors in particular.
17. 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.
18. Develop support mechanisms for local producers of modern EE equipment. The support mechanisms can include new incentive measures, subsidised loans, tax exemptions, etc.
19. Promote voluntary agreements and other industrial initiatives to stimulate energy efficiency in the industry. Support business initiatives targeting the improvements of energy efficiency, including fiscal incentives for energy efficiency improvements and ESCO schemes.

Recommendations: Buildings

20. Define clear responsibilities for the development and implementation of policy measures targeting energy performance in buildings (see Recommendation 3). Provide sufficient resources for managing the following key policy measures:
 - Minimum Energy Performance Requirements;
 - Energy performance certificates and certification procedures;
 - Financial incentives to encourage the improvement of energy performance;
 - Public procurement criteria related to energy efficiency to be applied to public buildings.
21. Promote the exemplary role of public sector with regards to building renovation. Prioritise the implementation of EE measures in public and state-owned buildings. Introduce specific sub-targets for improving efficiency in buildings.
22. Introduce Minimum Energy Performance Requirements (MEPR) for buildings based

on overall energy performance (kWh/m²/year). Gradually make more stringent MEPRs to achieve nearly zero-energy buildings.

23. Design the Energy Performance Certification 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 the buildings' energy performance is automatically available for the State Statistics Committee of Azerbaijan and for a wider decision-making process.
24. Initiate the development of a study on the potential use of solar thermal systems in Azerbaijan. Evaluate the potential of solar thermal systems to contribute to the electricity system development in a more cost-effective way, comparing to supply-side option. Based on the results of the study, develop a supporting mechanism for the installation of the solar thermal systems in the residential and service sectors. Evaluate the costs of running this support scheme against the multiple benefits for the Azerbaijani economy, creation of jobs, increase of investments, increase of electricity export, decrease of electricity consumption during peak hours and investments in the network reinforcement, etc. Consider opportunities for the creation of additional incentives for local producers of solar water heating systems.
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. Initiate the development of a study on technical and economic energy efficiency potential in residential buildings. 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 consumers have an easy access to information about their historical consumption (up to a three-year period). Conduct 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. Define clear responsibilities for development and implementation of policy measures targeting energy efficiency of energy-using products (see Recommendation 3). Provide sufficient resources for managing the following key policy measures:
 - Import ban of incandescent light bulbs;

- Ecodesign regulations;
 - Energy labelling regulations;
 - Energy efficiency criteria in public procurement procedures.
28. Prioritise the adoption and the implementation of ecodesign and energy labelling requirements, as one of the highest impact EE policy measures to achieve future EE targets. Start with the introduction of ecodesign requirements for the products that are less technically complex and contentious and can potentially bring the highest energy savings for residential consumers, such as heaters, air conditioners, dishwashers, washing machines and TV.
 29. Consider raising consumer awareness through information campaigns on energy labelling, to inform consumers of the benefits and money they could save.
 30. Enhance the capacity of involved stakeholders on efficient implementation of ecodesign and energy labelling compliance, enforcement and market surveillance. Strengthen the cooperation and coordination of activities between all involved stakeholders (see Recommendation 3).
 31. Provide general support and assistance for facilitating a higher uptake of highly efficient products and appliances. Develop targeted awareness-raising campaigns to enhance awareness of 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 3).
33. Introduce fleet management strategies in state authorities and state-owned companies;
34. Promote modal shift, in particular 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 subway and other electric means of public transport. Promote railway transport and the obligation on the airport and airline companies to promote public transport travels to/from the airport. Promote the use of bicycles, development of specific bicycle lines and the use of electrical scooters.

35. Promote rail and maritime transport means for cargo transportation.
36. Explore options to restrict or influence vehicle imports to favour vehicles that are more fuel efficient and of lower emissions (i.e. hybrid, LNG, LPG), taking advantage of the improving fuel efficiency and emissions performance of the EU market.
37. Conduct targeted campaigns to promote measures related to behavioural changes, including eco-driving, car-sharing and proper vehicle maintenance. Introduce Eco-driving as a part of the driving license study and tests.