

WHAT THEY ARE

Energy Efficiency Obligation schemes (EEOs) are a regulatory instrument, often combined with an incentive element, in the [industry policy package](#). An EEO scheme is a mechanism that requires “Obligated Parties” to meet energy or emissions savings targets within their customer portfolio. Obligated Parties may be energy utilities, retail energy sales companies, energy distributors, transport fuel distributors and/or transport fuel retailers.

EEOs are [market-based instruments](#) that do not prescribe the measures to be deployed by Obligated Parties to achieve their set targets (within certain limits). Within some EEO schemes, “white certificates” (also called “energy savings certificates”) are documents certifying that a certain reduction of energy or emissions consumption has been attained. White certificates are generally tradable between over- and under-performers and combined with an obligation to achieve a certain target of energy or emissions savings.

They are in use in 31 countries, with the number of schemes growing steadily over the past 20 years.

HOW TO IMPLEMENT

The main components of an EEO scheme include an adequate legal framework, scheme administration (institutional structures and capacity, operational methodologies) and obligated party delivery models (delivery mechanisms, funding/financing products, methodologies, organisational strategies). EEO structures vary widely from one jurisdiction to another and can be adapted to local circumstances.

The most effective EEOs are simple, have sufficient administrative capacity to effectively manage the scheme, set obligations at appropriate levels, and provide the legal/regulatory flexibility for the scheme to evolve over time. The costs are borne by the utility, which also bears the risk from operations and potentially missed targets. This can make EEOs a low-risk and low-cost tool for governments.

EEOs also incentivise utilities or industries to discover the lower cost route to energy efficiency and can incentivise them to bring energy efficiency to specific sectors or subsectors, such as SMEs or vulnerable households. It can be useful to consult behavioural experts in the design phase to ensure the policy has its intended effects.

EEOs are adaptable tools in terms of scope, fuel, and target setting – however, it is important to know what the objective is (e.g. reducing emissions, lowering energy consumption, minimising peak demand, etc.) to target the scheme appropriately.

EEOs require a strong framework. Not prescribing which actions must be undertaken to meet the energy savings targets could risk Obligated Parties choosing to implement only the cheapest and easiest projects, such as lighting, and avoid more complex projects with a longer time horizon such as retrofits. However, to avoid this, policymakers can design the EEO scheme to ring-fence or target projects requiring a specified proportion of energy savings to be achieved from certain types of energy savings/or sectors.

HOW TO MONITOR

One of the most important elements for a successful EEO is having a robust monitoring and verification framework in place. Policymakers will need to be able to evaluate whether the energy saving measures were actually undertaken as reported.

Calculations of energy savings are often done through estimations based on a pre-agreed formula rather than on measured data as it is simpler and cheaper to administrate. Monitoring and evaluation methods are specific to the EEO framework in question and need to be designed as an integrated part of the policy for each measure.