

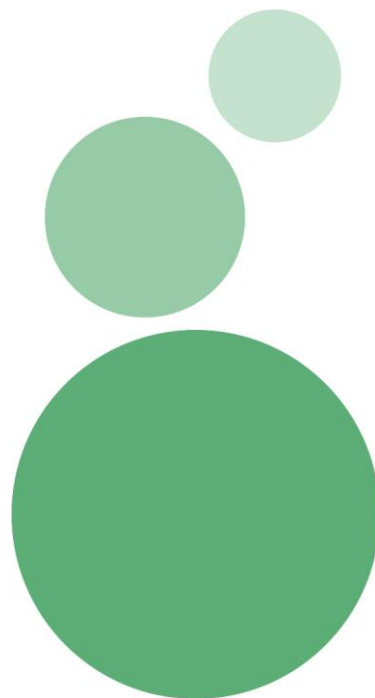


Executive Agency for Competitiveness and Innovation

Energy agencies: evaluation of the relevance of Community funding of local and regional energy agencies

Final Report

May 2010



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1.0 Summary of Key Findings

Value of energy agencies

1. Energy agencies are of local value because they provide information / advice to energy users, technical assistance and policy advice to public authorities, and facilitate the development of local sustainable energy markets.
2. Many of these activities require a long-term mandate and corresponding commitment from public authorities.
3. Information flows between agencies and EU policy makers (both bottom-up and top-down) need to be better structured and resourced. Existing feedback tools (including ManagEnergy) could be adapted to make bottom-up communication more effective and to facilitate its take-up at European level.

Demand for energy agencies

4. There is significant demand among a number of public authorities for the creation of energy agencies.
5. While the local added value of energy agencies is evident, there has been no observable snowball effect from the creation of the IEE energy agencies to date.
6. The current minimum population coverage of at least 200,000 people appears to be appropriate.
7. Agencies should only be created where they address a specific local demand, rather than merely to ensure a more equal geographic distribution.

Support for and sustainability of energy agencies

8. The majority of IEE funded energy agencies perceive the IEE establishment grant as appropriate in size.
9. EU support complements, rather than replaces, other sources of funding, and the number of energy agencies would be significantly smaller without IEE funding.
10. Securing local political support beyond the IEE funding period is vital for the sustainability of energy agencies, especially given the long-term orientation of many agency activities. While this has been forthcoming in most cases, there are examples where funding was discontinued prematurely, resulting in a scaling down of agency activities.
11. The availability of new sources of funding to ensure sustainability is a major concern for existing agencies. This is likely to exacerbate as agencies with larger IEE co-funding shares (up to 75%) approach the end of their work programme.

Organisation and work programme

12. The 3-year IEE work programme for new energy agencies is broadly appropriate and usually leads to successful and sustainable agencies.
13. Several administrative and legal structures (including the IEE model) are able to meet the needs of local authorities for energy advice and technical assistance.
14. Independence and not for profit status are important assets for energy agencies as they need to provide credible, high quality information, advice and assistance to a variety of stakeholders.
15. A simple and transparent evaluation and monitoring scheme could make this success more transparent to agencies themselves and to their stakeholders.

2.0 Executive Summary

This document reports on the **evaluation of the relevance of Community funding to local and regional energy agencies** commissioned by EACI and carried out by Matrix Insight and Ecologic Institute as independent evaluators. The study addresses five main research questions:

1. Is there a **need** for more IEE funded energy agencies?
2. How do EU agencies **contribute** to EU policy?
3. How should energy agencies be **funded** in future (short and long term)?
4. Is the 3 year work programme of **activities** proposed by IEE still appropriate for energy agencies?
5. What **administrative / legal structure(s)** is (are) best for providing energy agency services?

This section summarises the results of the study.

Need for energy agencies

1. Approximately 40-60 public authorities across Europe respond every year to calls for proposals for IEE funding to create an energy agency. These applications and the growing number energy agencies across Europe clearly indicate that **public authorities perceive a need for the services that energy agencies provide at a local level.**
2. Generally, public authorities whose IEE applications are not selected for funding do not proceed to establish an agency without EU funding and there is **evidence that EU endorsement helps attract additional funding from local sources.**
3. There are three main types of added value from energy agencies for local communities:
 - **For local energy users: provision of independent information and advice.** While there is a growing need at local level, such services are also of little commercial interest, and therefore not readily provided by the market. The added value of these activities lies primarily in areas where reliable information and advice for individual citizens are not yet prevalent.
 - **For public authorities: provision of assistance / policy advice** including technical assistance and training; advice and training on energy policies and legislation; implementation of local or regional energy policies; setting local rules and defining minimum standards; overseeing the implementation of policies and monitoring adherence to standards; and serving as a catalyst for institutional change in local government and public administrations. The added value of these activities is highest where technical expertise is scarce.
 - **For commercial actors: market facilitation** by providing a platform for exchanging experiences, generating and disseminating innovative ideas and facilitating take-up and piloting innovating market-oriented projects. The added value of these activities

is highest where there is a lack of private activity in EE and RE and a lack of access to credit.

4. ***The creation of new energy agencies is a bottom-up process which needs to be based on local need for expertise in energy efficiency and renewable energy.*** As a result, the distribution of IEE-funded energy agencies across European Member States varies significantly.
5. ***EACI should continue to allocate funding on the basis of local need.*** The current distribution of agencies does not suggest that particular European regions or country groups need to 'catch up' to the EU average, or that there are regions where funding should be concentrated.
6. The ***current minimum population coverage of at least 200,000 people appears to be appropriate*** with a large majority of energy agencies reaching out to populations that are greater than this minimum threshold.
7. ***There has not been a 'snowball effect' from the creation of IEE agencies*** as originally expected. The roles and activities of agencies are specific to their local situation and needs, and the existence of a successful energy agency in the region is generally not sufficient to convince other public authorities to establish their own agencies without EU funding.

Contribution of energy agencies

8. ***Local communities benefit from agency activities because agencies provide information to users, policy advice for public authorities and contribute to the local development and diffusion of new technology.*** Energy agencies which are regularly provided with up to date information about EU policies are able to offer a local source of expertise on EU energy policies and their implementation, which they can interpret for local decision makers in their own language and in a local context. Agencies also promote best practices in their regions, using knowledge and experiences which they have obtained by networking with other agencies across the EU.
9. There is currently ***no formal basis for policy feedback from energy agencies***, other than through their voluntary (unpaid) contributions via the ManagEnergy initiative. Feedback to EU policy makers from local and regional energy agencies is not very well structured and has a rather limited impact. Current and future initiatives such as ManagEnergy could help improve the way in which feedback is provided and its usefulness at local and European levels.

Funding of energy agencies

10. ***The main costs of creating an energy agency are staff salaries*** which, for IEE agencies, are covered by public funding (including EU funds). However, IEE funding is not provided as an operating grant for the normal long term operation of an agency.

11. Because IEE support is designed as a type of “seed funding” for 3 years, an agency’s **sustainability can be greatly enhanced through a long term mandate from the relevant public authority**. A solid long term mandate establishes the public mission of the agency and allows it to access other sources of public and partnership funding.
12. **As part of their IEE grant agreement, the establishing authority commits itself to keeping the new energy agency active on the same basis for a further 5 years after the end of the IEE grant**. This commitment implies that the public authority will either a) take responsibility for providing the funds previously provided by the IEE grant for a period of at least 5 years, or b) help the agency secure alternative sources of funding to allow them to continue operating as an independent not for profit agency.
13. **Public funding (European, national, regional and local) currently constitutes the biggest share of resources for the vast majority of agencies, irrespective of how long they have been in operation**. Survey results show that among agencies that receive an IEE establishment grant, 56 percent considered the size of the grant “about right” compared with 41 percent who advocated a rise. As energy agencies mature and their portfolio of activities grows, the share of public funding declines slightly over time (though not necessarily the absolute contribution of public funds).
14. The majority of agencies (including those that currently receive some type of IEE funding) report that **sales of products and services contributed to their budget**. In terms of the relative contribution of sales, there is no significant difference between agencies that currently receive IEE funding (project or establishment grant) and those that do not receive any EU funding.
15. However, **82% percent of agencies do not expect the majority of future funding to come from sales of products and services** (i.e. commercial activities), with the vast majority expecting public funding to continue to provide the majority of resources.
16. **For the relatively small number of agencies where commercial revenue is a very significant source of income**, it is important to ensure that these agencies continue to provide a valuable public service in line with the initial IEE funding intentions.
17. **The transition from IEE funding to other sources of funding constitutes a significant potential stumbling block for energy agencies**. This is likely to become even more prominent in the near future as the first agencies funded at 75% through the IEE work programme come to the end of their establishment grant.
18. **Special support and advice (e.g. through a dedicated work package within their 3 year IEE work programme) may be needed to help agencies establish partnerships with organisations which could provide them with future funding**. In addition, if practical from an administrative point of view, IEE establishing grants could be phased out over several years, so that local authorities take over the agency’s budget more gradually.
19. **Energy agencies can play an instrumental role in facilitating the development of new markets in energy efficiency and renewable energy at local level**. The long

term public mission of an energy agency working in partnership with the local authority sets energy agencies apart from commercial consultancies. This unique constellation can help build trust between agencies and commercial companies, and avoid commercial competition between them.

20. **Cooperation with local commercial actors** can include promotion of services and products of local suppliers among energy users and the long term promotion of energy issues to public authorities. It can also include market creation activities such as generating new ideas, facilitating exchange, implementing market oriented projects and helping commercial actors enter new markets through access to credit and project financing.

Activities of energy agencies

21. **The 3-year IEE work programme can lead to successful and sustainable energy agencies.** Most energy agencies think IEE funding is relatively easy to apply for and sufficiently focused on the agency's needs. However, the agency needs to allocate sufficient management effort during the first 3 years to prepare for its continuation after the end of the period of IEE support. The 3-year IEE work programme should include time for agencies to identify new partners and stakeholders who can contribute to funding the services which it will provide in the future.
22. **Local public authorities are considered important stakeholders for all energy agencies.** Most agencies in their first 3 years of operation focus on providing information and advice to energy users, for example to encourage behavioural change for energy efficiency, regulatory improvement and training. Initial priorities usually include developing a better understanding of EU policies and legislation, and organising events, workshops and seminars.
23. **Political support is highlighted as one of the main success factors for agencies,** not least because the public mandate facilitates partnership agreements with other bodies. There is a need to further strengthen the political commitment to energy agencies from public authorities (e.g. through European initiatives such as the Covenant of Mayors).
24. **The study did not identify any active attempts on the part of energy agencies to monitor and evaluate their impacts and benefits.** Some agencies are unclear about the tangible benefits and impacts that their 3-year work programme was trying to achieve, and how progress should be measured. Therefore there is a need to develop a clear and transparent system of progress assessment with which energy agencies can comply at a limited cost.

Legal and administrative structure of energy agencies

25. **Generally, there is a wide spectrum of structures, which are used for energy agencies, but these can be classified under one of four broad models,** defined by their ownership structure, the legal status, the mandate and the financial support.

- **Model 1: Internal unit or department** - fully subsumed in the public authority and publicly financed. This model can work well where the public authority is permitted to employ a dedicated team of energy staff.
 - **Model 2: IEE model** - independent, mostly publicly funded, not-for-profit agencies, with a broad long term mandate and mostly publicly financed.
 - **Model 3: Public/private** - independent, part-privately funded not-for-profit agencies, with a broad long term mandate and financed both publicly and privately. This model is typically adopted by agencies at the end of an IEE establishment grant in cases where the establishing public authority is unable or unwilling to significantly increase its annual funding.
 - **Model 4: Consultancy** - independent, for profit agencies, with a project by project mandate, limited in scope and mostly privately financed.
26. **Several administrative and legal structures are able to meet the needs of local authorities for energy advice and technical assistance.** For instance, as demand for local action on sustainable energy issues has grown over time, some authorities have set up internal departments with energy expertise. In other cases, increasing demand for EE/RE services has fostered the development of a private market for energy consultancies. In comparison with IEE funded, independent not for profit agencies, these organisations are less focussed on translating EU policy to the local context.
27. It is widely acknowledged by public authorities, energy agencies and their stakeholders that **independence and not for profit status are important assets for energy agencies.** There are however different interpretations among energy agencies of the limitations imposed by their legal status.
28. The majority of interviewees suggested that **3 full-time staff form a critical minimum size.** However, the *optimal* size depends on the size of the agency's constituency, the activities it carries out and the depth and breadth of expertise required for carrying out its tasks.

3.0 Introduction and overview

Research for this study took place between August 2009 and May 2010 and primary data collection for the study included: interviews with energy agencies at the Open Days in 2009; an online survey of energy agencies (October 2009-January 2010); workshops with a total of about 80 agencies in November 2009; and case studies involving interviews with 12 energy agencies and their stakeholders across Europe.

Out of a total of 352 energy agencies contacted for the survey, 135 responded (38%). The sample of respondents included 52% regional, 41% local and 8% national energy agencies and it was comprised of both new agencies (less than 3 years old) that currently receive IEE funding, agencies that have “graduated” from the programme recently (between 3 and 8 years old) and more established agencies established more than 8 years ago (a full description of the survey questionnaire is in Appendix 3).

This document contains the final report of the evaluation of the relevance of Community funding for local and regional energy agencies. The document is structured along the lines of the main questions posed in the terms of reference.

Table 1 – Overview of research questions

Main question	Sub-questions
Is there a <i>need for more</i> IEE funded energy agencies?	Why do public authorities decide to create a local energy agency? What added values do they bring to local communities and public authorities? Are there geographical priorities for new agencies at EU level? Is there a "snowball" effect for the creation of new energy agencies?
How do EU agencies contribute to EU policy?	What are the key EU dimensions of their activities? How do agencies help local communities to benefit from EU policies? How do agencies help to implement EU policies? Should relevant agency capabilities be strengthened and, if so, how?
How should energy agencies be <i>funded</i> in future (short and long term)	How much public funding, and how should potential competition with commercial market actors be addressed?
Is the 3 year work programme of <i>activities</i> proposed by IEE still appropriate for energy agencies?	Does it lead to successful and sustainable agencies? Does it adequately take local contexts into account? Which are the most significant agency case studies, success stories, failures, best practices, benefits, tangible EU dimensions?
What <i>administrative / legal structure(s)</i> is (are) best for providing energy agency services?	Is the IEE model of an independent not for profit legal entity still appropriate? What alternative models have also been shown to work? What are the reasons for choosing a given model? Is there a critical minimum size for a sustainable agency?

The energy agencies interviewed and surveyed for this study operate at local and regional levels, and they were set up by regional or local public authorities, including city and municipal authorities. Generally, these agencies fall within one of four broad models defined in terms of their ownership structure, legal status, their mandate and their financial support, as presented below:

Table 2- Overview of agency models

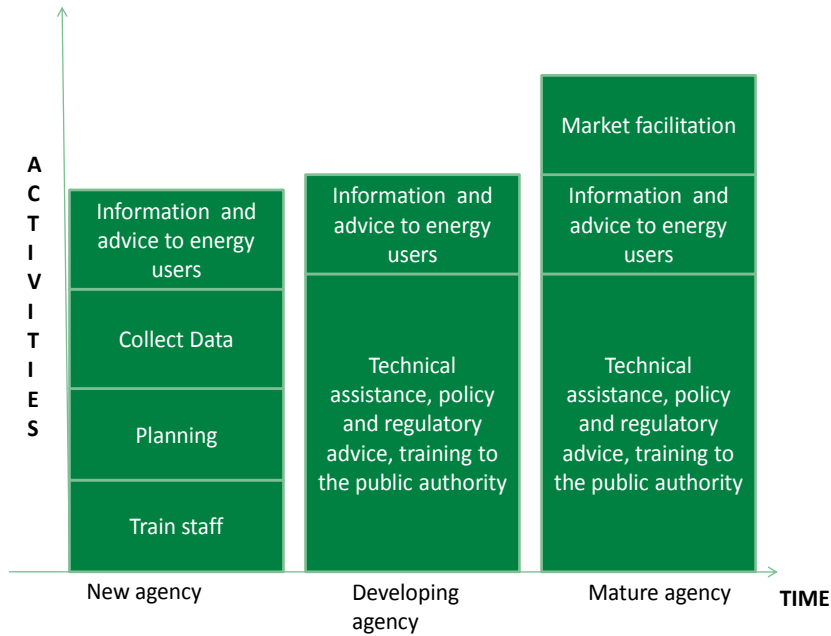
Model	Type	Ownership	Legal status	Mandate	Financial support
1	Internal unit	Public	Public	Fully subsumed in the public authority	Fully public
2	IEE model	Independent	Not for profit	Broad long-term mandate	Mostly public
3	Public / private	Independent	Not for profit	Broad long-term mandate	Shared public/private
4	Consultancy	Independent	For profit	Project by project Limited scope	Mostly private

While the present study covers all types of agencies, its focus is on model 2 - “the IEE model”. In order for such agencies to operate effectively, they need **a clear long term mandate** from their public authority. This mandate is usually granted, monitored, and regularly up-dated by the Management Board of the agency, chaired by a senior elected representative of the local public authority.

The activities of agencies differ across the different models as well as over time as the agency develops. The figure below briefly illustrates the evolution of activities of a typical local energy agency that falls within model 2 (an ‘IEE agency’). In this stylised model, the evolution of an energy agency undergoes three main steps:

1. When a new IEE energy agency is established, it typically begins by focusing on **developing its own skills, gathering data on its local energy economy and developing a local sustainable energy plan;**
2. As it matures, the agency is able to provide **technical assistance and policy advice to its local authority;**
3. Once it is experienced and has built up the confidence of local investors, a local energy agency can then embark on more ambitious **market facilitation** activities.

Figure 1 – Evolution of activities of an IEE energy agency (model 2)



Note: While it is expected that a successful agency will over time grow its total activities, the size of the boxes is only indicative and does not reflect empirical measures of resource allocation within agencies.

The remainder of this document discusses each of the research questions from the terms of reference in turn.

4.0 What is the need for new energy agencies

- A. *Why do public authorities decide to create a local energy agency?*
- B. *What added values do they bring to local communities and public authorities?*
- C. *Are there geographical priorities for new agencies at EU level?*
- D. *Is there a "snowball" effect for the creation of new energy agencies?*

- A. **Why create an agency?** Every year, between 40 and 60 public authorities lodge applications to create an energy agency through the IEE call for proposals, in which typically about 15-20 applications are selected.¹ At the same time, some public authorities across Europe also bring in expertise on energy efficiency and renewable energy without applying for IEE funding. Either way, the growing numbers indicate that authorities perceive a **need for the services that energy agencies provide** at local level.

It should be noted that public authorities whose IEE applications are not selected for funding generally do not proceed to establish an agency without EU funding.² Indeed, several case study agencies confirm that it would not have been possible to create the agency without EU funding³ and that EU funds helped attract other public funding.⁴ This strongly suggests that the **availability of EU funding and/or the credibility and prestige attached to EU endorsement** are important factors in the motivation to set up an energy agency.

- B. **Added value of an agency.** The primary rationale for setting up energy agencies relates to their local added value. The study has discovered **three categories of added value** for local communities that can be attributed to energy agencies.

1. **Provision of information / advice to energy users:** The lack of good quality practical information, advice and training has proven to be a major obstacle to investments in sustainable energy measures – many of which pay for themselves within a few years or, in some cases, within a few months.⁵ Moreover, there is likely to be a **growing need for information and advice on EE and RE issues** at local level across Europe. More and more local authorities are committing themselves to achieving CO2 reductions (e.g. there are now more than 1,300 signatories to the Covenant of Mayors). These authorities will need to develop strategies and provide information to their communities on how to achieve the CO2 reductions that they have signed up to.

Independent local energy agencies are well placed to provide guidance on how to choose and where to obtain good quality energy efficiency and renewable energy

¹ Source: EACI

² *ibid*

³ For instance, the managing director of the Slovenian case study agency stated that the creation of the agency would have been impossible without IEE establishing grant.

⁴ Case study interviewees from Spain stated that the prestige of European funds attracted the interest of other public investors.

⁵ For example this could be the case when a householder needs to make an urgent investment decision on how to replace a broken boiler, or to repair a leaking roof, and wishes to choose the most sustainable energy option.

products and services. Providing independent information and advice is a time consuming activity of little commercial interest, which explains the lack of commercial firms offering these services. In addition, users of such information like to ensure that the advice they receive is independent of related commercial interests.

On average, **energy agencies spend a large share of their time and resources tackling information barriers** by providing free, objective and independent information and advice to individual citizens and other energy users.⁶ In line with the development stages of agencies over time (see Figure 1 above) new agencies in particular tend to see information provision as a primary activity.⁷

Local energy agencies can be effective communication instruments in the local community by virtue of their **broad and long-term approach to renewable energy (RE) and energy efficiency (EE) issues.** To reduce energy demand through behavioural change and to maintain energy savings, citizens and organisations must be reminded regularly (e.g. through information campaigns) about the need for energy efficient behaviour. Such initiatives clearly require a long term approach and a locally recognised and respected information provider.

In addition, the **ability of energy agencies to form strong partnerships with local actors** enables them to spread messages quickly and effectively through local communities.⁸ Energy agencies set up as independent units with strong energy expertise can forge alliances and partnerships with other stakeholders to exchange information in ways that most public authorities cannot. Through such partnerships, they can help create and inform local networks of relevant actors and thereby raise the profile of sustainable energy issues in the local community.

2. **Assistance / policy advice to public authorities:** energy agencies typically provide two types of assistance to public authorities, namely (1) **technical assistance** and training on topics such as sustainable energy planning, carrying out energy audits for public buildings⁹, advising on green procurement, etc. and (2) **information, advice and training on energy policies and legislation**¹⁰.

⁶ Case study respondents, especially from Germany, the UK, France, Spain and Sweden agree that information provision is a significant element of the value added of energy agencies and they recognise awareness raising and dissemination of information and independent technical advice as their most important activity.

⁷ 44 percent of agencies consulted in the survey and which were created after 1999 claim that changing public and business behaviour in favour of energy efficiency and renewable energy is one of their most important activity (i.e. on which they spend most of their time). Only 21 percent of the agencies created before 1999 spend much time on this activity. Similarly, 58 percent of the agencies created after 1999 claim that one of the main activity involves organising events, workshops and seminars for the public.

⁸ For instance, the German agency Klimaschutzagentur Region Hannover facilitates a number of stakeholder networks. The regular meetings with different themes convene representatives from public authorities, business and universities and aim at increasing the information flow between the different spheres of society.

⁹ The Finnish, the Spanish and the Swedish energy agency for instance promote and advise measures to improve energy efficiency in public buildings; the Slovenian and Bulgarian agencies are also involved in energy checks in buildings

¹⁰ According to survey respondents, the activity on which energy agencies spend the second most time and resources is 'promoting improvement of legislation and regulation in favour of new energy technologies' (36 percent); while the third most important activity is 'providing training in the area of EE and RE' (25 percent)

In addition in some instances, energy agencies also have a role in the **(3) implementation of local or regional energy policies**¹¹, for instance monitoring energy efficiency standards for buildings, managing local sustainable energy support schemes, or gathering data.¹² They can also **(4) help set local rules and minimum standards** through providing technical assistance to local authorities.¹³

Finally, energy agencies can **(5) serve as a catalyst for institutional change in local government and public administrations**, bringing fresh ideas and knowledge into the formulation and implementation of energy policies (e.g. in response to the Covenant of Mayors initiative).

The added value of an energy agency providing technical assistance to public authorities is highest in areas where technical expertise is scarce¹⁴, for example where the markets for energy efficiency and renewable energy-related services are not yet developed. In contrast, in areas where there is already an active and competitive market for sustainable energy expertise, energy agencies typically focus their activities on working with the public authority to further develop that expertise and to grow the local sustainable energy markets.¹⁵

3. **Market facilitation:** Energy agencies can add value by facilitating the development of local sustainable energy markets¹⁶, as a part of their public mission, through:

- a) **providing a platform** for private sector actors to exchange ideas and experiences¹⁷;
- b) **generating and disseminating innovative ideas** for potential private sector initiatives, and **facilitating take-up** by local players¹⁸ (e.g. through partnerships with municipalities, banks, utilities, resellers, etc...); and
- c) **piloting innovative market-oriented projects** to demonstrate the commercial viability and potential of sustainable energy initiatives, and attract investments.¹⁹

In areas where there is only limited sustainable energy activity, i.e. where there are few sustainable energy companies (energy consultants, developers, installers, ESCO's, etc), local energy agencies can **take on the role of "first movers"** to induce private

¹¹ While the UK agency does not get involved in the implementation of policies yet, the Spanish and German agencies help local and regional authorities in this sense

¹² The Swedish agency GDE-Kantor for example collects data on energy consumption in the two counties the agency covers. See <http://www.gde-kontor.se/pages.asp?PageID=164&MenuID=1094>

¹³ This was pointed out for instance by the Croatian and Bulgarian case study agencies.

¹⁴ Case studies in Italy and France have confirmed that energy agencies have been created primarily to overcome the lack of technical expertise in the field of RE and EE.

¹⁵ For instance, the Forestry Commission Scotland highlighted the technical expertise on RE, in particular on wood fuel, as one of the key benefits it gains from working with ALLenergy, the regional agency in West Scotland.

¹⁶ 47 percent of the energy agencies list 'reducing barriers to market entry for EE and RE initiatives' among their main three activities.

¹⁷ The Zagreb (REGEA) agency and its stakeholders stressed their role in facilitating networking and knowledge sharing activities for the private sector as these are activities that private companies would not implement because they do not generate income.

¹⁸ The French agency for instance fosters local energy efficiency businesses. The Italian agency AESS has formed an Energy Cluster for coordination of 6 "green economy" companies for joint innovation and entering new markets.

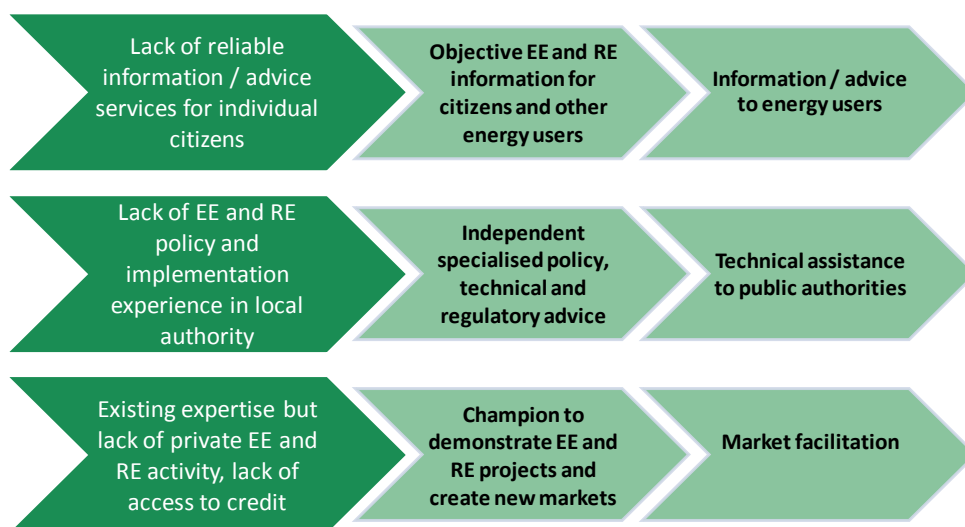
¹⁹ The agency in Helsinki significantly increased the market for high-quality energy audits by introducing energy management systems for all City-owned buildings which, in each case, started with an energy audit of the building performed by a private contractor.

companies to enter a newly created market. For instance, local sustainable energy companies may have difficulties to access credit unless it is demonstrated that their projects and initiatives are commercially viable; this demonstration can be achieved through pilot projects carried out by local energy agencies.

Apart from its environmental benefits, the creation of new sustainable energy markets by local energy agencies can also help create **new local jobs**, providing an added justification for public funding. However, in order to ensure that public funding is used efficiently and does not crowd out private investment, it is important for an agency to focus on supporting and training new businesses to work in the new markets, and to put in place mechanisms to avoid competition with private companies in existing markets.

Figure 1 illustrates how the three main areas of energy agency activity meet local needs and how these activities address specific problems related to a lack of local EE/RE expertise and market development. These different activities are of course not mutually exclusive and individual agencies combine activities depending on their level of development and the local needs. The emphasis on different activities should be regularly reviewed to ensure that they reflect the evolving experience of the agency and the local context where the agency operates.

Figure 2 – The local value of energy agencies



C. Geographical priorities for new agencies:

There are currently **about 400 agencies in the EU** for a total population of about 500 million people, which corresponds on average to about 1.3 million people per agency (see Annex 6).

Current regulations stipulate that **IEE energy agencies need to cover at least a population of 200,000 people**.²⁰ Results of a survey with local and regional energy agencies demonstrate that not all agencies target similar sized coverage areas. For

²⁰ This threshold was raised from a minimum of 100,000 inhabitants initially.

instance, local agencies are likely, on average, to focus on smaller populations than regional or national agencies. The figure below shows agency perceptions of the size of their coverage area. About one third of agencies report coverage areas of between 200,000-500,000 people, 37% have coverage areas larger than 500,000 people and 29% have coverage areas that are smaller than 200,000 people. Based on these survey results, one quarter of energy agencies (26%) indicate that they reach more than 1 million people.

There are **three reasons why the distribution of energy agencies is not equal across Europe:**

- a) **Local needs for energy efficiency and renewable energy expertise:** the creation of new energy agencies is a bottom-up process, based on local needs for energy efficiency and renewable expertise. These needs can differ across different European regions.
- b) **The quality of proposals submitted by the local authorities:** The energy agencies which have been created over the past fifteen years with support from EU funds were selected on the basis of the quality of the proposals received, rather than on the basis of geographical priorities at European level.
- c) **Alternative arrangements to satisfy local needs for energy efficiency and renewable energy expertise:** in some Member States there are alternative arrangements and institutions which provide the services usually provided by an IEE funded energy agency.²¹

There is no evidence to support the introduction of geographical priorities for future IEE funding. While the distribution of energy agencies varies across regions, there are no obvious patterns in the data to explain this variation²², which supports the conclusion that distribution of energy agencies are due primarily to the quality of proposals for IEE funding and to the perceived need for energy agencies at local level.

- D. **Snowball effect:** Through the creation of new local energy agencies, the IEE programme intended to demonstrate the added value of such agencies not only to the public authorities that had set them up but also to other public authorities, which would then create additional agencies (with or without EU support). To support this intention, newly established agencies were required to work to promote the creation of new agencies by nearby authorities as part of their IEE supported activities (see IEE Guide for Proposers).

The research carried out for this study has shown that **this snowball effect has not occurred as initially foreseen.** The roles and activities of agencies are specific to their local situation and needs, and the existence of a successful energy agency in the region is

²¹ For instance, there are relatively few agencies in some long-established EU Member States such as Belgium, France, the Netherlands and the United Kingdom. Rather than a lack of interest in energy agencies, or low quality applications, the explanation for this disparity is that these countries have alternative systems and structures in place to support energy agencies or to deliver the services which energy agencies provide. For instance, France supports agencies via Ademe and national information centres, while the UK uses regional offices of the Energy Savings Trust (in England) and the EST's network of advice centres to provide the type of services otherwise typically delivered by IEE-funded agencies.

²² For instance, new Member States are found at either end of the list – with Slovenia boasting the highest concentration of IEE-funded agencies among the EU-27 Member States, and Poland and Romania among the countries with the lowest coverage per inhabitant. Likewise, a concentration of agencies among poorer or richer Member States, or among Southern or Northern Member States is not apparent.

generally not sufficient to convince other public authorities to establish their own agencies without EU funding. However, there is evidence that some existing agencies have attracted support from nearby public authorities, thus allowing them to increase staff and expand the scope of their activities.

5.0 How do agencies contribute to EU policy

- A. *What are the key EU dimensions of their activities?*
- B. *How do agencies help local communities to benefit from EU policies?*
- C. *How do agencies help to implement EU policies?*
- D. *Should relevant agency capabilities be strengthened and, if so, how?*

This section discusses whether there is an **EU dimension** to the activities of energy agencies and, therefore, a rationale for European funding.

- A. **EU dimensions of agency activities:** Energy agencies established with EU support or which participate in EU projects are contractually obliged to spread information about EU energy policies to decision-makers and stakeholders at local and regional levels who are affected by European policy. This includes public authorities, businesses and households.²³ By spreading such information, energy agencies support the implementation of EU policy related to sustainable energy²⁴, help local communities to benefit from those policies, and influence both the development and implementation of related *local* energy policies.

There are several existing tools to facilitate bottom-up (from agencies to the European level), top-down (i.e. from the Commission to the local level) and horizontal flows of information (between energy agencies).

First, agencies which are actively supported by EU grants or are involved in EU projects have to **provide regular reports on their activities to the Commission services**. These reports provide important feedback on the progress being achieved and the setbacks being experienced in the implementation of EU policies at local and regional levels, and they can have a role in influencing future EU policy development.

Second, for energy agencies which are not actively supported under an EU grant, European initiatives such as **ManagEnergy** or through the **Covenant of Mayors provide opportunities for networking** and may also help with channelling feedback from the local to the European level.²⁵ The ManagEnergy initiative provides for information exchanges via a dedicated web site, which disseminates information top down from the Commission to the agencies through its Newsletters, and bottom up from the agencies to the Commission

²³ 40 percent of the survey respondents included 'Implementation of EU project and policies' among their most important activities

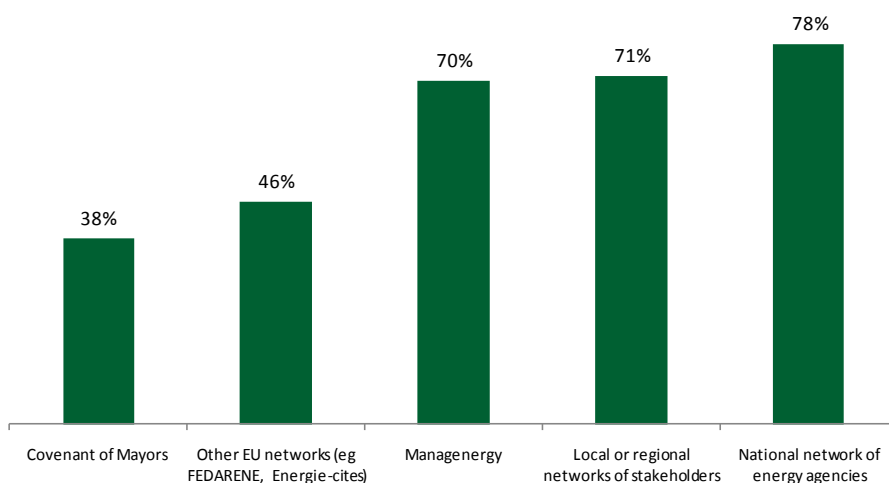
²⁴ Representatives from the Malaga agency have claimed that their role in maintaining the implementation of EU policy goals high on the agenda of public authorities is crucial. As a result of Bulgaria's very recent (2007) EU accession, the Plovdiv agency is one of the few and probably the strongest, communication channel for introduction and implementation of EU policies at the local level. Similarly, the Slovenian Pomurje Energy Agency initiated and organised a joint contract on establishment of the National Consortium of Energy Agencies. The consortium prepared the Regional Development Programme of Pomurje Region 2007-2013 and in this way the agency succeeded at promoting and implementation of RES and EE on regional level. Finally, the Helsinki agency stated that they serve as an informal information point for new EU policies and regulation within the City Administration.

²⁵ Slovenia's PEA and Spain's AGMEM, the Helsinki Unit and the Bulgarian EAP agencies mentioned international networks of energy agencies as beneficial and worth strengthening.

through their Case Studies. ManagEnergy also promotes networking between the agencies through the organisation of workshops and conferences.

Finally, **networks** (including national energy agency networks, independent international networks such as FEDARENE, ENERGIE CITES, etc, specialised sector networks such as ISLENET) facilitate exchange and *sharing of experiences and best practices between agencies* in different parts of their own Member State and across borders between Member States.²⁶ The figure below compares energy agency participation in a selection of networks and initiatives that aim to foster knowledge exchange at national and European level. Among European initiatives, the ManagEnergy initiative in particular enjoys relatively wide coverage, just behind local, regional and national agency networks.

Figure 3 – Agency participation in national and international networks and initiatives



Despite the existence of these tools, interviews and information collected during this study have shown that **feedback to EU policy makers from local and regional energy agencies is not very well structured** and, consequently, has rather limited impacts. Similarly, top-down information and exchanges between energy agencies also need to be improved. In practice, flows of information "bottom-up" from agencies tend to be less effective than top-down flows, because it is difficult for policy makers to digest information from many different agencies with different local contexts, policies, languages, etc. The language issue and a lack of dedicated resources in particular can be a barrier for bottom-up or horizontal exchanges.²⁷

Several current and future initiatives could help improve the way in which feedback is provided and its usefulness at local and European levels. The ManagEnergy initiative was re-launched in 2010, with the aim of developing more structured and efficient means of ensuring effective two way communications between energy agencies and EU policy

²⁶ 96 percent of survey respondents agree that the main benefit of participating in an EU network is the exchange of experience and best practices

²⁷ Previous efforts of the Helsinki unit show that even spreading the information within the Finnish energy agency network has failed due to lack of time and resources; hence, specifically earmarked resources will be necessary to scale up exchange

makers. For example, ManagEnergy could work more closely with agencies to develop a centralised tool for digesting feedback and ensuring that it is submitted to policy makers as efficiently as possible. Other ways in which ManagEnergy could facilitate more effective information flows between agencies and EU policy makers in future might include: (1) development of simple reporting formats for agency feedback on energy policy implementation at local and regional levels, (2) annual planning of specific workshops and events at which local and regional energy agencies can meet and network directly with relevant Commission services (including DG ENER, DG REGIO, DG ENV, etc.).

- C. Agencies help communities benefit from EU policies:** As discussed in the previous section, local communities benefit because agencies provide information to users, policy advice for public authorities and because they contribute to the local development and diffusion of new technology (market facilitation). Agencies pass on information from across the EU to local businesses and provide advice to both private and public sector with the help of international experts through workshops, training courses, business trips, and study tours²⁸.

Agencies also promote best practices in their regions using knowledge and case study examples which they have obtained by networking with other agencies across the EU.²⁹ For instance, such practices may include campaigns and schemes aimed at changing individual energy behaviour and new energy management models for reducing greenhouse gas emissions. In these ways, energy agencies can facilitate in their own region the demonstration and dissemination of new solutions³⁰, which have already been proven in another area of the EU.

Research for this study has shown that more could be done to foster exchange between agencies and benefit from their local specialisation. For instance, some energy agencies suggested that EACI could assign topics of European interest to individual agencies based on their experience and skills and ask them to report on these topics at European-wide workshops or through ManagEnergy. Such an exchange would help the entire group of energy agencies to benefit from the specialisation of individual agencies and provide an added European dimension to the work of local and regional energy agencies.

- D. Agencies help to implement EU policies:** EU energy policies are embodied in a combination of official communications, white and green papers, action plans and legislation, only some of which are legally binding. Energy agencies which are regularly provided with up to date information about EU initiatives, policies and legislation are able to offer a local source of expertise on EU energy policies and their implementation, which they can interpret for local policy makers and other local decision makers in their own language and in a local context.

²⁸ 71 percent of all the agencies participating in the survey claimed that organising events, workshops and seminars is among their 5 main activities; also 60 percent of the agencies participating in the survey claimed that providing training in the area of EE and RE is among their most important activities (i.e. on which they spend most of their time)

²⁹ A large number of EU funded projects provide a good networking opportunity for energy agencies. To cite just one example, the EU-funded project COMBAT has helped to establish a peer-review mechanism for energy action plans between Stockholm, Tallinn, Riga and Helsinki.

³⁰ For example, the Helsinki Unit has built up detailed knowledge and practical experiences on energy consumption monitoring in buildings; similarly, Porto's AdEP prepared a guidance document for technicians on best practices to use EE in historical buildings and the Hannover agency initiated a very successful scheme of free energy efficiency advice for home owners and businesses in cooperation with the local Chamber of Crafts

For example, the Covenant of Mayors initiative gives emphasis to a core element of EU energy policy for local actors, which is the formulation and implementation of Sustainable Energy Action Plans (SEAP). While drawing up their plans, many local and municipal authorities face similar challenges with respect to gaps in data, meaningful stakeholder participation, and monitoring of progress. Energy agencies can offer invaluable help in this process by providing professional skills from their own staff, as well as access to other energy agency professionals across the EU who are working on similar plans and who are willing to share their experiences, as well as their current practices and solutions.³¹

- E. **Strengthening agency capabilities:** There is a broad range of agency capabilities across the EU, including some large agencies with more than 15 years of experience and some very small agencies, which have only just been established. In order to keep themselves up to date with the rapidly evolving markets for sustainable energy products and services as well as with the continuing evolution of EU policy and legislation, all energy agencies need to participate in regular training, capacity building and networking activities.

Capabilities related to new technologies, systems and skills can be strengthened at local levels by strengthening partnerships with technology providers and trainers, for example in universities and training colleges. Agency staff can also learn about the latest technology developments and best practices in the use of new technologies by analysing case studies produced by colleagues from other agencies and by networking with them.

On the other hand, strengthening the capabilities of energy agencies to provide policy advice to their public authorities is not a task which can easily be accomplished only at local level. Exchanges with EU policy makers and with experts in other energy agencies are vital to successful capacity building in the area of energy policy. As described above, various EU fora for such exchanges already exist, notably via the ManagEnergy initiative, the annual EU sustainable energy weeks, the annual EU Open Days and others.

Those energy agencies which are actively working on EU projects or are supported by an EU grant can normally use some of their EU funding to pay for participation in such fora. However, agencies which do not have on-going EU funded activities may find it more difficult for financial reasons to participate in and benefit from such capacity building / capability strengthening fora. New agencies should be very strongly encouraged to participate in capability strengthening activities, and new ways need to be found to fund the participation of existing agencies in capability strengthening activities, if those agencies are not currently active in EU projects or supported under an EU grant.³²

³¹ This suggestion came from the Helsinki Unit for example.

³² It should be noted that knowledge exchange benefits not only the agencies themselves but also their establishing authorities and the private sector. For instance, local authorities gain international exposure and information from their participation in projects led, facilitated or supported by energy agencies at little cost to the authority (since the agencies take care of project applications and management).

6.0 How should agencies be funded in future

A. How much public funding?

B. How should potential competition with commercial market actors be addressed?

Establishment costs for a new agency are composed of a small amount (typically less than €10,000) of legal and administrative costs and staff costs. In most cases public authorities cover legal and administrative costs from their own budgets. The main costs of creating and maintaining an energy agency are staff salaries which, for IEE agencies, need to be covered by a combination of funding, mostly coming from public sources.

- A. **How much public funding:** Agencies established with support from the IEE programme (“model 2”) are mostly fully funded by a combination of public funding from the proposing public authority and an IEE grant. Specifically, agencies established during the first 4-year IEE I programme (since 2003) typically received 50% support from the IEE and 50% from their local public authority. Since 2007, new agencies typically receive 75% from the IEE II programme and only 25% from the local public authority.³³ In some cases, there is a minor contribution from third parties during the 3-year period of the IEE grant, but this does not normally exceed a few percent of the total costs.

It is worth emphasising four aspects that affect agency activities over the course of the IEE period and during the transition period from IEE funding to alternative revenue sources:

1. The IEE establishment grant supports the creation of new energy agencies by covering salary and establishment costs. **IEE funding is not provided as an operating grant** for the normal operation of an agency.
2. The objective of the IEE programme is to provide “seed funding” for the creation of new energy agencies. As a result, **the agency’s sustainability requires a long term mandate from the relevant public authority** (see also Table 4 in the next section). Such a solid long term mandate establishes the public mission of the agency and allows it to access other sources of public and partnership funding.
3. During their 3-year IEE work programme, **new energy agencies are generally not permitted to participate in other IEE projects**. In a small number of cases where this has been permitted, the agency was not allowed to claim for overhead costs to avoid double funding because these costs are already covered by their agency establishment grant.
4. As part of their IEE grant agreement, **the establishing authority commits itself to keeping the new energy agency active on the same basis for a further 5 years**

³³ At the time of the study, no energy agencies funded at 75% by an IEE grant had yet reached the end of their initial funding period. The discussion of the transition from IEE grant to non EU-support therefore focuses on agencies whose establishment had been funded to the tune of 50% by the IEE. Where possible, implications for agencies funded at 75% can however already be derived.

after the end of the IEE grant. This commitment implies that the public authority will either a) take responsibility for providing the funds previously provided by the IEE grant for a period of at least 5 years, or b) help the agency secure alternative sources of funding to allow them to continue operation as an independent not for profit agency.

Survey results from a sample of over 100 energy agencies (covering older agencies and newer agencies including those that receive IEE funding and those that do not) show that public funding (European, national, regional and local) currently constitutes the biggest share of resources for the vast majority of agencies.³⁴ Indeed, across the entire population of energy agencies that responded to the survey, **an average of 81 percent of funding comes from public sources.** Among those that receive an IEE establishment grant 56 percent of agencies considered the size of the grant “about right” compared with 41 percent who advocated a rise.³⁵

According to IEE regulations, agencies which currently receive IEE funding are funded up to 75% by the IEE programme with the remainder mostly from local and regional public authorities. For older agencies, survey results indicate that agencies that are between 3 and 8 years old have an average 83 percent public funding and agencies that are older than 8 years have an 80 percent share of public funding in their budget.

These figures confirm that **public funding constitutes the vast majority of resources for energy agencies, irrespective of how long they have been in operation.** In addition, it also suggests that, as energy agencies mature and their portfolio of activities grows, **the share of public funding declines slightly over time** (though not necessarily the absolute contribution of public funds).³⁶

Overall, **a majority of agencies** (including those that currently receive some type of IEE funding) **report that sales of products and services contributed to their budget.** There is no significant difference between agencies that currently receive IEE funding (project or establishment grant) and those that do not receive any EU funding. In both cases, a majority of agencies had some contribution from sales of products and services and a large minority (above 40%) participated in tenders.

In addition to the survey of a sample of over 100 agencies, case studies (see Annex 7) confirm that while public funding constitutes the vast majority of resources for most energy agencies, **commercial revenue can be important for the sustainability of some agencies.**³⁷ For instance, the UK case study agency stated that post IEE project funding is not sufficient to cover for project and overhead costs. The Italian AESS significantly increased its revenues from consultancy work from 25 percent to 90 percent between 1999

³⁴ A description of the sample of respondents to the survey is in Annex 4.

³⁵ It should be noted, however, that particularly agencies in new Member States and in Northern Europe advocated a rise of the IEE funding ceiling.

³⁶ It should be noted that this decline in the share of public funding does not necessarily reflect a decline in the commitment of public resources to the agency. As agencies become more established, their portfolio of activities grows and private funding can cover some of the *additional* activities that the agency carries out. For instance, in Figure 1, this growth in activities is represented by the addition of market facilitation activities. Unfortunately, the survey could not gather reliable data on the evolution of agency budgets over time.

³⁷ It should perhaps be noted that case studies were drawn from the group of more experienced energy agencies that have been in existence for a longer time and for whom European funding currently only constitutes a small share of the budget (if any).

and 2008, the German Klimaschutzagentur Region Hannover raises 35 percent of its budget through a large utility. In the Netherlands, two former local energy agencies merged into EREA, a regional energy agency, because they could not cover overhead costs after the end of (at that time) SAVE funding.

The figures above consider only *current* funding across all types of agencies. However, as described above, IEE establishing grants run for a period of 3 years, after which the establishing authority commits to taking over funding or helping the agency secure funding from other sources.

The results from the survey of energy agencies below indicate how agencies envisage covering the post-IEE establishment grant period³⁸:

- **53 percent** of agencies considered that their main source of future funding would be national, regional and local public sector bodies.
- **6 percent** expected EU grants to continue to be the main source of funding after the end of their existing European funding.
- **18 percent** of agencies saw the majority of future funding coming from sales of products and services (i.e. commercial activities).
- **15 percent** of agencies indicated that they did not yet know their main source of revenue after the end of the European funding period.

These survey figures cover only the *main expected* source of funding after the IEE establishment grant. In practice, agencies are likely to be funded through a combination of different types of revenue. Nevertheless, the results show that a majority of agencies (59%) see public funding (EU, national, regional or local) as the main source of revenue in the future, and 82% do not expect commercial activities to become their main source of income upon expiration of the EU establishment grant.

In terms of added value of the IEE work programme, it is important to ensure that these agencies continue to:

- a) **comply with the stipulations of the IEE work programme**, including the commitment of the establishing authority to maintain the agency for 5 years after the end of the IEE work programme; and
- b) **provide a valuable public service** in line with the initial IEE funding intentions. Where this is not the case, lessons must be drawn for future funding priorities.

The study results clearly show that ***the transition from IEE funding to other sources of funding constitutes a significant stumbling block for energy agencies***. This is likely to become even more prominent in the near future as the first agencies funded at 75% through the IEE work programme come to the end of their establishment grant. For these agencies, finding replacement funding at the end of the 3-year IEE grant could pose an important challenge, especially given expected public sector funding cuts in a large number of

³⁸ The total adds up to 92% because 8% of respondents suggested that they expected the majority of their funding to come from "other" sources.

countries as a result of the current financial crisis and already limited availability of local sources of public funding in some parts of the EU.³⁹

Special support and advice may be needed to help agencies establish partnerships with organisations which could provide them with future funding for some of their activities, such as providing free information / advice to energy users and technical assistance / policy advice to public authorities. This could be achieved, for instance through the creation of a work stream dedicated to financial sustainability and fundraising within the IEE work programme (see also Section 7 below). In addition, a number of agencies indicated that IEE establishing grants could be phased out over several years to help the local authority take over the agency's budget through gradually increasing financial contributions.⁴⁰

B. How should potential competition with commercial market actors be addressed

As section 4 showed, one of the long term benefits of establishing an energy agency is that it can support the future development of commercial market actors working on energy within their local community, thereby helping to create local jobs (market facilitation).

The ***long term public mission of an energy agency*** working in partnership with the local authority sets energy agencies apart from commercial consultancies, it can help build trust between agencies and commercial companies, and avoid commercial competition between them. For instance, energy agencies can facilitate market development by putting enquirers in contact with experienced experts (including commercial actors) either in their own region / country, or in other parts of the EU if the required expertise is not readily available in their own country.⁴¹

The table below shows how the activities identified in Section 4 which generate the added value of energy agencies can facilitate cooperation with private actors and foster market development without creating unfair competition with existing market actors.

³⁹ Given significant differences in wealth across regions it may be appropriate to specify different public co-funding rates depending on GDP per capita or DG REGIO definitions of Objective 1 and 2 regions.

⁴⁰ This was suggested, for instance, by the Slovenian case study agency PEA and the Helsinki Unit. It should be noted, however, that some agencies thought an extension to the 3-year duration of the work programme could be counterproductive by further postponing the search for sustainable funding solutions. In addition, phasing out IEE grants may be impractical from an administrative point of view.

⁴¹ Most energy agencies employ only a few energy specialists (usually less than a handful) and they often do not have the capacity to provide in-depth expertise across the full range of sustainable energy sectors themselves.

Table 3 – Ways in which energy agencies engage with commercial actors

Added value	Cooperation with local private actors
Information and advice to energy users	Agencies can <i>promote information on the services and products of local suppliers</i> , which (as far as possible) meet agreed quality standards.
Advice to public authorities	Agencies can provide <i>long term strategic advice</i> with a broad scope, in accordance with their long term mandate, and <i>employ local commercial actors</i> as sub-contractors (selected on a competitive basis) to provide specific short term specialist advice
Market facilitation	Agencies can help market actors to develop local sustainable energy markets by: <ul style="list-style-type: none"> a) <i>providing a platform</i> for private sector actors to exchange ideas; b) <i>generating and disseminating innovative ideas</i> for potential private sector initiatives; and c) <i>implementing innovative market-oriented projects</i> to demonstrate their commercial viability and potential, thereby breaking down local market barriers and building the confidence of local investors. d) <i>help private actors enter a newly created market</i> by making it easier for them to access credit and project financing.

7.0 Is the 3 year IEE work programme appropriate?

- A. *Does it lead to successful and sustainable agencies?*
- B. *Does it adequately take local contexts into account?*
- C. *Which are the most significant agency case studies, success stories, failures, best practices, benefits, tangible EU dimensions?*

The IEE programme has included calls for the creation of new local and regional energy agencies every year until 2009, with a consistently defined three year work programme, which should be adapted to suit local priorities. Once established, the 3 year outline work programme for a new IEE supported agency has six standard work packages, including:

- 1) **Management** (working together with public authority and others, monitoring performance);
- 2) **Energy planning** (initial activity to develop an energy plan for the community);
- 3) **Sector activities** (focused on energy efficiency and renewable energy priorities for the locality/region);
- 4) **Horizontal activities** (advisory, training, information services for public authority, community);
- 5) **Capacity building** through European cooperation with other agencies and ManagEnergy; and
- 6) **Communication and dissemination** at local, regional and national levels (raise awareness).

- A. **Leads to successful and sustainable agencies:** Feedback from this study suggests that the 3-year IEE work programme can lead to successful and sustainable energy agencies if the agency allocates sufficient management effort during those 3 years to prepare for its continuation after the end of the period of IEE support (see also section 6). Several IEE agencies indicated that **preparing for the post-IEE period had been an important management activity** during the 3 year IEE work programme.⁴²

Indeed, the **3-year IEE work programme should include time for agencies to identify new partners and stakeholders** who can contribute to the costs of the services which it will provide in the future.⁴³ During and after the 3 year IEE work programme, as the agency and its associated public authority(ies) become more experienced and the local sustainable energy markets grow, it should be anticipated that the agency's work programme will need to be adapted, with some new activities being introduced and others discontinued.⁴⁴

⁴² 20 percent of agencies with an IEE establishment grant considered fundraising one of their main activities

⁴³ The Croatian agency REGEA sees the reason for its success in particular in seeking alternative funding soon after its set up. The Scottish ALLenergy in contrast struggled to secure follow-up funding. Agency staff proposed to set incentives for early application for additional sources to ensure a smooth shift once IEE has expired.

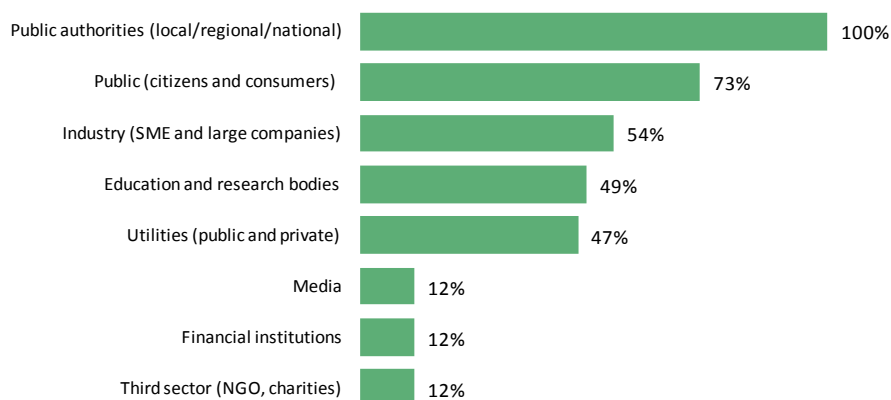
⁴⁴ 60 percent of IEE funded survey respondents envisage partial changes in their activities in the future compared with only 50 percent of non IEE funded agencies. In the case of EREA, both activities and administration changed at the end

Survey results support the conclusion that the IEE work programme can lead to successful agencies. Most energy agencies think IEE funding is relatively easy to apply for⁴⁵ and sufficiently focused on the agency's needs.⁴⁶ However, there is also a clear perception among energy agencies that the **monitoring and reporting burden associated with the IEE work programme is disproportionate**⁴⁷. While this is a common complaint among beneficiaries of European funding, it should nevertheless be taken into account when designing changes to the IEE programme.

- B. **Adequately takes local contexts into account:** The 3 year IEE work programme for an agency is initially proposed by the establishing authority, and this work programme is later refined at the "inception report" stage in discussion between Commission services and the newly appointed Director of the energy agency.

In order to effectively take local contexts into account, agencies need to work in ways which reflect the needs of their local stakeholders. Since public authorities are the only bodies eligible to establish a new IEE energy agency, they are initially the main stakeholder for all IEE supported agencies. This is reflected in the perceptions of the agencies themselves, all of which indicated public authorities as one of their main stakeholders. Other key stakeholders identified by energy agencies include citizens / general public, industry, education and research bodies and utilities (approximately half of all agencies). Media, financial institutions and third sector organisations are seen as less relevant with only 12 percent of energy agencies indicating them as main stakeholders.

Figure 4 - Main stakeholder groups for energy agencies
(percent of surveyed agencies listing a particular stakeholder group among their core constituency)



of European funding since two local energy agencies were compelled to merge into one regional energy agency to save on overhead costs. It should be noted that, apart from the national energy agency, EREA is now the only energy agency left in the Netherlands.

⁴⁵ 62 percent of the agencies disagree with the statement 'IEE funding is too complicated to apply for'

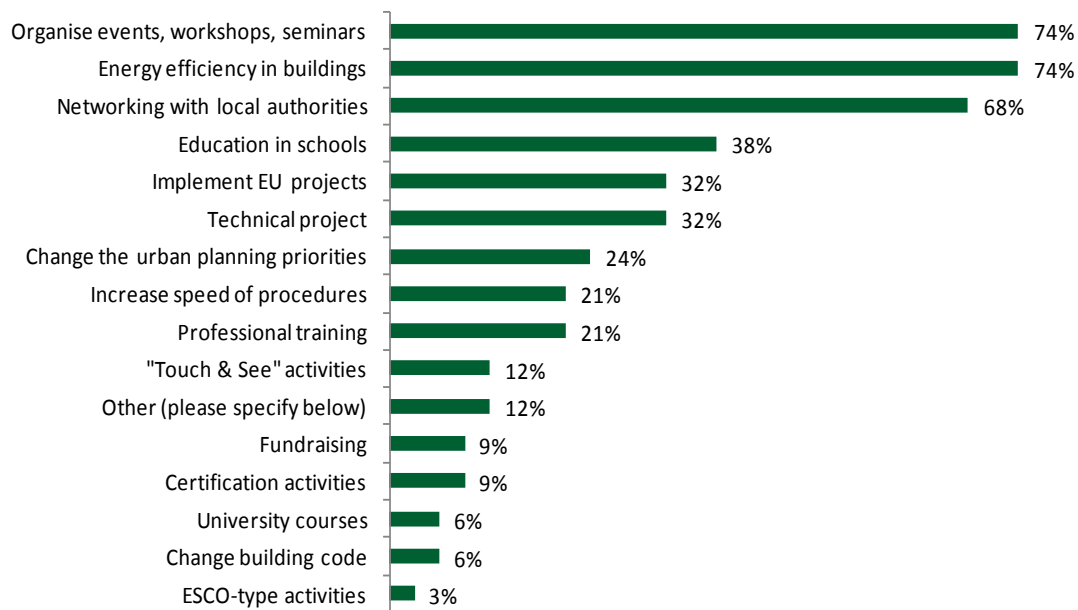
⁴⁶ 58 percent of the agencies disagree with the statement 'IEE funding is not sufficiently focused with the agency needs'. However, this is not always the case. For instance in Manchester, the process of creating the energy agency was very long and the establishing body does not on its own have the capacity to produce an application for IEE funding.

⁴⁷ 58 percent of the agencies agree with the statement 'IEE funding requires too much monitoring and reporting'

In terms of the activities carried out, most agencies in their first 3 years of operation focus on providing information and advice to energy users, for example to encourage behavioural change for energy efficiency, regulatory improvement and training⁴⁸ rather than on market facilitation activities⁴⁹. Because of their close association with Commission services over the course of the 3-year IEE establishment grant, the regulatory and legislative work of these agencies at local level is likely to reflect European priorities in the field of EE and RE.

The figure below shows the main activities of recently established energy agencies that have not exceeded the 3-year IEE establishment grant period. Overall, the results suggest that the 3 years IEE agency work programme reflects local needs and contexts relatively well. Indeed, the initial priorities of an energy agency are usually to develop a better understanding of EU policies and legislation, to put in place sustainable energy activities associated with energy efficiency in buildings, and to organise events, workshops and seminars.

Figure 5 - Main activities of recently established agencies (less than 3 years)
(percent of agencies reporting a particular activity among their core activities)



⁴⁸ 45 percent of less than 3 years old agencies claim that providing training on EE and RE and promote regulatory improvement is among their most important activities (i.e. activities on which they spend most of their time)

⁴⁹ Less than 40 percent of less than 3 years old agencies claim that reduce barriers to market entry and improving access to capital is among their most important activities (i.e. activities on which they spend most of their time)

C. **Significant success stories, obstacles and benefits:** The table below lists some of the main success factors and obstacles to the development of a successful and sustainable energy agency, as reported by energy agencies themselves.

Table 4 – Success factors and obstacles for IEE energy agencies

Success factors reported by energy agencies
Political support including prestige acquired through association with the “EU label”; EU grant agreement ensures support from the public authority even in times of political change (e.g. change in local government); close association with the public authority ⁵⁰ (sometimes sharing offices).
Access to knowledge , good working cooperation with universities and research institutions, creation of internal knowledge databases, access to external expertise, knowledge transfer through participation in networks. ⁵¹
Financial stability and flexibility through partnerships with local businesses (e.g. energy companies) and reputation earned through sustained high quality work.
Motivated, professional and qualified staff ⁵²
Obstacles reported by energy agencies
Rapid transition from IEE funding to other funding sources at the end of the 3 year IEE work programme. ⁵³
Lack of emphasis on planning for follow-up funding during 3 year IEE work programme Some types of follow-on funding are discouraged by the IEE work programme ⁵⁴ . Some interviewees also thought that, in its efforts to prevent transformation of publicly funded energy agencies into commercial consultancies, the programme precludes agencies from building up a portfolio of private clients. ⁵⁵

⁵⁰ However, other agencies underlined the (perceived) independence from the public authorities as a factor enabling their success, for instance if businesses and other organisations are more willing to engage in open cooperation with an energy agency than they would with a regulator.

⁵¹ The Slovenian agency PEA highlighted that the importance of EE and RE issues was already acknowledged in its operating reasons mainly due to the proximity to Austria. A bilateral project had started in 1991 to create Advisory Network to help raise energy awareness, reduce environmental pollution, increase effective use of energy and to promote the use of renewable energy sources. This partnership was seen by the agency as an enabling factor when PEA started its activities in 2005. EAP Plovdiv and their stakeholders pointed out that their projects on EE and RE are the key information source on EU policies, processes and management both for them, local authorities and commercial players. Beyond energy issues, local authorities clearly stated that EE and RE project-related travel and communication with other EU local authorities facilitates adjustment to changes brought by EU accession.

⁵² Staff quality and motivation was stressed in Helsinki and Hannover in particular.

⁵³ The responses to the survey in fact stress that, once European funding ends, 51 percent of the IEE funded energy agencies will rely on public funding from national, regional, or local public bodies, to fund their activities.

⁵⁴ For instance some interviewees noted and EACI confirms that access to additional EU public funding is limited to avoid double funding issues during the 3 years of IEE support to newly established agencies.

⁵⁵ For instance, an interview partner at the Italian agency AESS mentioned a lack of incentives to start identifying alternative funding sources early. At the same time, it should also be noted that if an agency has signed an IEE grant agreement to support all of its staff working full time on an agreed work programme for a fixed period of 3 years, then additional activities for third parties could only be performed during that same period without double funding if the

Short term focus of agency activities on behavioural change rather than improvements in the regulatory environment. The impact of regulatory activities is difficult to measure and they require continued support from political stakeholders. While this is of course part of the rationale for public funding of energy agencies, pressure to show quick results, can lead energy agencies to focus a disproportionate part of their resources on effecting behavioural change.

In terms of clear examples of tangible benefits, the results of this study are mixed. Apart from basic activity monitoring, **the study did not identify any active attempts on the part of energy agencies to monitor and evaluate their impact and benefits**. When prompted, a number of agencies suggested that their impact is best captured by **output-based indicators** (e.g. number of projects implemented) which are easier to measure but do not reflect the usefulness of the agency in terms of EU policy objectives. Other agencies maintained that their impact could only be captured by way of longer term **impact indicators** (e.g. reduction in CO₂) that are difficult to measure and even more difficult to attribute directly to agency activities. Finally, some energy agencies were **unclear about the tangible benefits and impacts** that their 3-year work programme was trying to achieve, and how progress should be measured.

The study has identified a **need to develop a clear and transparent system of progress assessment with which energy agencies can comply at limited cost**. Such an evaluation system could be designed at European level and it should establish clear links between Community objectives, the roles of energy agencies and their outputs, results and impacts. Appropriate performance indicators would need to be selected for each of the different types of agency activity (information and training, public service provision and market facilitation) and special attention would need to be paid to keeping reporting burdens proportionate to the size of EU funding.

agency were to employ additional staff or if the IEE work programme activities and the corresponding IEE grant were to be reduced.

8.0 What administrative and legal structures are best for providing energy agency services

- A. *Is the IEE model of an independent not for profit legal entity still appropriate?*
- B. *What alternative models have also been shown to work?*
- C. *What are the reasons for choosing a given model?*
- D. *Is there a critical minimum size for a sustainable agency?*

A. **Is the IEE model still appropriate:** The IEE model (“model 2”) of a not for profit, independent energy agency has been in operation across many parts of Europe for more than a decade. The table below outlines the main features of the IEE model.

Table 5 –Main features of the IEE model

Feature	Description
Establishment & Mandate	<p>Only a public authority can establish an agency under a written commitment to ensure its sustainability for 5 years after the end of the IEE grant. The agency therefore has a long term public mandate.</p> <p>While most agencies continue to operate for the full 5 years, their activities sometimes change and there is some evidence of agencies scaling down at the end of the IEE funding period.⁵⁶ Additional thought should be put into how the 5-year commitment on the part of the authority can be enforced or how sustainability can be ensured beyond the IEE funding period.</p>
Independence and legal status	<p>The agency must have its own statutes and bank account, and employ its own staff, allowing it to operate independently of the public authority on a day to day basis. Not for profit status ensures that it is not driven by a need to return a profit to shareholders, and it helps define its operating culture and the mission to provide easily accessible and useful services to local citizens and to the establishing authority.⁵⁷</p> <p>This permits it to engage in market facilitation, offer independent advice to the public authority, and lobby for changes in local</p>

⁵⁶ For instance in Portugal, a recent effort to set up a national network showed a significant number of “inactive” agencies due to lack of resources post-IEE funding.

⁵⁷ It should be noted however, that there is a lack of clarity among agencies about what the not-for profit status means for their activities. Some agencies interpret this as a requirement not to engage in commercial activities of any kind. Others see not-for profit primarily in terms of constraints on capital accumulation and re-investment of revenues generated through commercial activities.

	<p>policy and legislation, which neither commercial actors nor the public authority itself can do.⁵⁸</p> <p>In some cases, it is politically and financially easier for public authorities to establish an external agency in collaboration with the EU than to appoint new permanent staff in-house. In other cases, however, Member States interpret the agency's independence to mean that it cannot be financially supported by public authorities without open competition for funds with other local service providers.⁵⁹</p> <p>Also, employment conditions of agency staff may be less secure / attractive than those in the public authority itself and some staff may prefer to be employed by the authority and seconded to the agency.</p>
<p>Management structure</p>	<p>The agency reports to an independent Management Board, chaired by an elected member of the establishing authority. Thus, the agency benefits from guidance from other stakeholders (university, utilities, local chamber of commerce, consumer groups, etc.). Some agencies also have an advisory board though there are large variations in the extent to which the advisory board takes an active role in the development of the agency.</p>

B. What alternative models have also been shown to work?

As indicated in Section 3, this study has identified four main administrative models for energy agencies, as follows:

1. **Internal unit or department**, fully contained within a public authority;
2. **IEE Model - independent, mostly publicly funded, not-for-profit agency** with a broad long term mandate from the public authority, and financially supported almost entirely by the authority.
3. **Public/private - independent, part privately funded, not-for-profit agency**, with a broad long term mandate from the public authority and a management board chaired by the authority, but with significant support (including financial support) from other partners having a shared mission; and
4. **Consultancy - independent organisation**, often commercial, whose establishment was triggered by work for a public authority, but which carries out short term mandates that are limited in scope to individual projects.

⁵⁸ For instance, the Bulgarian case study agency pointed out benefits in terms of public image as a result of its independent not-for-profit status and LEA in Slovenia saw the administrative structure as a guarantee of the impartiality of its services. AESS, an Italian agency which strongly cooperates with the private sector, decided not change its status to a profit-making body because of greater flexibility in funding and benefits in terms of public image as a result of its status as a not for profit

⁵⁹ For instance in Poland, not for profit organisations are not allowed to work directly for public authorities. In Italy, not for profit organisations can only raise public funds through open procurement procedures which greatly reduces the attractiveness of public funding compared with commercial activities.

C. **What are the reasons for choosing a given model?**

Model 1 can work well where the public authority is permitted to employ a dedicated team of energy staff, and where the culture permits them to provide objective advice both inside and outside the authority.⁶⁰ While this model does not meet the legal requirements specified by the IEE programme, energy teams established within public authorities have been eligible to participate in normal IEE projects under ALTENER, SAVE, or STEER key actions.

Model 2 is the model used for agencies which are established with IEE programme support (fully described under point A). As described in Section 3, establishing authorities whose funding applications to the IEE work programme were rejected usually do not proceed to set up agencies using this model.

Model 3 is typically adopted by agencies at the end of an IEE establishment grant in cases where the establishing public authority is unable or unwilling to significantly increase its annual funding. In these cases, the agency would typically seek funding from additional nearby public authorities or other stakeholders in the sustainable energy sector which have a reason or a mandate to provide some or all of the services that are normally provided by energy agencies. For example utilities which are obliged to achieve CO2 reduction targets, NGO's with relevant energy commitments, etc.

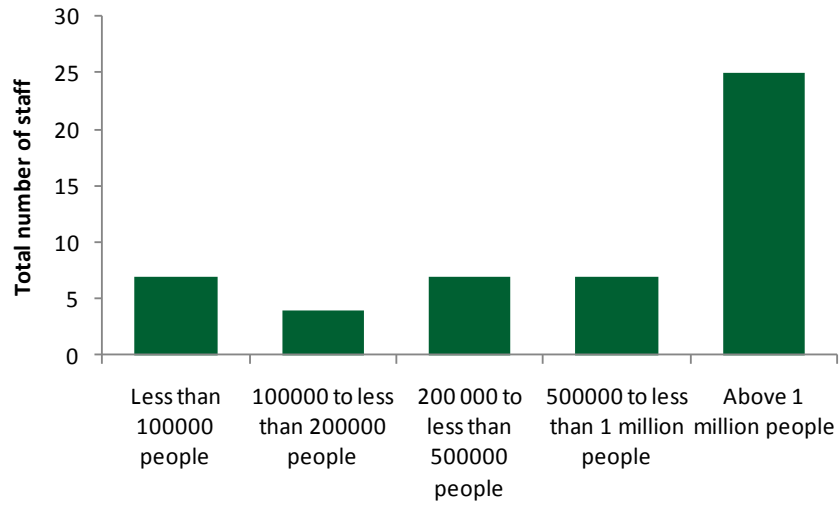
Model 4 is very close to a commercial consultancy, which is likely to find it difficult to offer independent long term information and advisory services either to energy users or to the public authority because of the lack of a clear long term mandate and appropriate funding. A specific feature of this model is that it combines a level of commercial acuity with the flexibility and dynamism of the local private market for EE and RE services.

D. **Is there a critical minimum size for a sustainable agency?**

In terms of agency size, the majority of interviewees suggested that **3 full-time staff form a critical minimum size**. At the same time, the *optimal* size depends on the size of the agency's constituency, the activities it carries out and the depth and breadth of expertise required for carrying out its tasks. The figure below shows, for instance, that the size of energy agencies depends to some extent on the size of the constituency that they serve with regions of more than 1 million inhabitants requiring larger agencies than regions with less staff (these figures do *not* include national agencies). At the same time, there is little difference between very small coverage areas (<100,000 people) and areas with 500,000-1 million inhabitants.

⁶⁰ The Helsinki Unit is an example. After IEE funding ended it fully was integrated into the public authority without major change to its mandate.

Figure 6 – Average agency size, by size of its target population



9.0 Main findings and conclusions

This section summarises the main conclusions and findings from each of the sections of the main report.

Background and context

1. More than 15 years ago, it was recognised that **local and regional authorities across the EU lacked the knowledge and skills needed to implement sustainable energy solutions**. In response to this need, about 80 new energy agencies have been created by the IEE programme, adding to approximately 200 which had been created since the early 1990's by the SAVE programme. This was seen as a long term EU initiative to establish the necessary infrastructure and skills at local and regional levels across the EU.
2. **About 380 local and regional energy agencies** are currently operating across the EU. In this study, information from a sample of these agencies was collected on their current legal status, funding sources and activities.
3. **The context for sustainable energy has changed markedly** during the past couple of years, as witnessed by the new EU policies and legislation on energy and climate change. The five questions which were used as a basis for this study reflect the need for an analysis of the current situation at local and regional levels, as well as for guidance on the best way forward.

Need for energy agencies

4. This study has confirmed that there is **significant demand among a number of public authorities for the creation of energy agencies**. At the same time, the study has established that energy agencies should only be created in areas where they add value at the local level by addressing a specific local demand. Any abstract estimation of the optimal number of energy agencies across Europe will therefore be fraught with uncertainties, and of limited robustness.
5. The study has shown **significant variation across Member States in the number of IEE-funded agencies per head**. These differences reflect different local needs for EE/RE expertise, but may also be due to different institutional and administrative frameworks, which make the IEE model more or less suitable for the specific context. A lack of awareness on the part of some local authorities may also have a role.
6. A large majority of existing agencies reach out to populations that are greater than 200,000 inhabitants. As a result, the **current minimum of at least 200,000 people appears appropriate**.
7. Energy agencies are of **value to local communities through the provision of information / advice to energy users, technical assistance and policy advice to public authorities, and market facilitation**.
8. Energy agencies established with EU funding were expected to demonstrate the benefits of local EE/RE expertise and lead to the creation of additional agencies established without EU funding (snowball effect). **This snowball effect has not happened**, although evidence suggests that some agencies have used their

expertise to assist nearby local authorities which, in turn, have agreed to contribute to their operating costs.

How do agencies contribute to EU policy

9. During their first 3 years of operation, IEE supported agencies are required to work on local energy plans and local policies in close relation with EU policies and priorities. Some agencies remain active on EU policy related activities after the end of their 3 year period of IEE supported establishment, often by participating in other EU funded projects.
10. **Agencies can be effective in working with public authorities to facilitate the creation of new local markets and jobs in sustainable energy services.** At the same time, public funding should not support activities that compete with existing private companies. The value added of energy agencies does not lie in the provision of commercial services, but in disseminating neutral information to users, providing technical assistance and advice to public authorities, and cooperating with private actors to foster market development.
11. There is currently **no formal basis for policy feedback from energy agencies**, other than through their voluntary (unpaid) contributions via the ManagEnergy initiative.
12. **Information flows between agencies and EU policy makers (both bottom-up and top-down) need to be better structured and resourced.** While top-down communication does take place, energy agencies could also provide useful feedback to EU policy makers (bottom-up) and impact on the design and implementation of EU policy. There are already several feedback tools (including ManagEnergy) which could be adapted to make bottom-up communication more effective and facilitating its take-up at European level.
13. Agencies which are kept up to date with EU initiatives, policies and legislation can act as a **local source of expertise on EU energy policies and their implementation.** They can inform and advise local policy and decision makers about EU initiatives, policies and legislation in their own language and in a local context.

How should agencies be funded in future

14. The main costs of establishing a new energy agency relate to **employment and training of new specialist staff.** In comparison, costs of office space and equipment and legal costs are relatively small and often covered by local public authorities.
15. **A majority of IEE funded energy agencies perceive the IEE establishment grant as appropriate in size.**
16. In most cases, where IEE applications were refused, the public authority did not proceed with setting up an agency using alternative funding sources. This confirms that in most cases **EU support is needed in addition to other sources of funding**, and that the number of energy agencies would be significantly smaller without IEE funding.
17. The objective of the IEE programme is to provide “seed funding” for the creation of new energy agencies. As a result, **the agency’s sustainability requires a long term mandate from the relevant public authority.** Such a solid long term

mandate establishes the public mission of the agency and allows it to access other sources of public and partnership funding.

18. In a number of cases, the **requirement for public authorities to continue funding the agency for 5 years without IEE support** was not followed through. While the vast majority of agencies continued to operate beyond the IEE funding period, there were also cases where agencies scaled down their activities drastically at the end of the IEE funding period. This result highlights the **importance of securing local political support for energy agencies.**⁶¹
19. One of the main concerns for energy agencies relates to the **availability of new sources of funding to ensure sustainability** beyond the initial IEE funding period. These concerns are likely to increase in the future when the first agencies that were co-funded to the tune of 75% by the IEE programme come to the end of their funding period.⁶² These concerns could be mitigated partly by provisions to allow for a gradual phasing out of IEE funding over the initial funding period and by a greater emphasis on early identification of follow-on funding (e.g. through a dedicated IEE work package). However, such phasing out of European funds may not be practical from an administrative point of view.

Appropriateness of the 3 year IEE work programme

20. The **3-year IEE work programme for new energy agencies is broadly appropriate and usually leads to successful and sustainable agencies.** However, some agencies and their public authorities struggle to secure appropriate sources of funding to replace IEE support at the end of the 3 years. As pointed out above, it may be useful to introduce a **clearly defined work package within the IEE programme aimed specifically at developing partnerships with commercial actors and securing future funding.**
21. The study has found that IEE energy agencies are well adapted to the local context in which they operate. The work programme is defined by the establishing public authority and feedback shows a **close relationship between agencies, their establishing authorities and other local stakeholders.**
22. **Political support is highlighted as one of the main success factors** for agencies beyond the 3-year period because the public mandate facilitates partnership agreements with other bodies. In contrast, lack of follow-up funding is highlighted as the main obstacle to the development of a sustainable agency after the end of the initial IEE funding period. There is a need to examine options for further strengthening the political commitment to energy agencies from public authorities (e.g. through European initiatives such as the Covenant of Mayors).
23. The success of energy agencies would be more widely recognised if a **simple and transparent evaluation and monitoring scheme** were developed for reporting on energy agency activities. Such a scheme would help agencies focus on activities and directing resources to areas where they add most value. While it should ideally cover key indicators such as energy and CO2 saved, share of renewables installed, or jobs and investments initiated, the system would need to be able to relate these

⁶¹ The existing tool for this is the IEE contractual obligation on the public authority to pay back the IEE funding if the agency does not continue for 5 years.

⁶² The level of EU funding for establishing new energy agencies was limited to a maximum of 50% of the total agency budget until 2007, before being raised to 75%. To date, no agencies co-funded at the level of 75% have yet come to the end of their 3 year period of IEE support.

indicators to agency activities, be flexible enough to take into account differences in local priorities and avoid creating disproportionate reporting burdens.⁶³ Indeed, the study has found that IEE agencies are already concerned about existing reporting duties imposed by the IEE programme.

What administrative and legal structures are best for providing energy agency services

24. The results of this study suggest that **several administrative and legal structures are able to meet the needs of local authorities** for energy advice and technical assistance. For instance, as demand for local action on sustainable energy issues has grown over time, some authorities have set up internal departments with energy expertise. In other cases, increasing demand for EE/RE services has fostered the development of a private market for energy consultancies. In comparison with IEE funded, independent not for profit agencies, these organisations are less focussed on translating EU policy to the local context.
25. It is widely acknowledged by public authorities, energy agencies and their stakeholders that **independence and not for profit status are important assets for energy agencies** which need to provide credible and high quality information, advice and assistance to end users, public authorities and private sector stakeholders. There are however different interpretations among energy agencies of the limitations imposed by their legal status.

⁶³ The format of such periodic (e.g. annual) reports remains to be defined. However, topics to be covered include the number of actors in the market, the types of services that are being provided privately, demand for EE and RE services, any changes since the last market report and actions that the agency has taken to adjust to these developments. It is important to stress that reporting duties must be proportional to the amount of public funding disbursed. Disproportionate reporting duties were highlighted by most interviewees consulted as part of the fieldwork for this study.