Wallonie service public

ADB2-AV2030

Analysis report on the functioning of the 2nd-generation branch agreements and preparation of future 2030 agreements

Contents

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1. EXECUTIVE SUMMARY

This document presents feedback about the second-generation branch agreements (ADB2), based on a written consultation and a broad oral consultation in the forms of six webinars, both of which are supported by the expertise of the Pirotech, Janson & Deplasse consortium. It aims to prepare for a new generation of voluntary agreements.

The first aspect covered concerns the structure of the agreement and the relevant legal aspects, including the role of representative bodies (federations), the pooling of results and a new approach of 'carbon communities'. [1]

In accordance with the meaning in the Environmental Code, branch agreements are environmental agreements that have been concluded between Wallonia and one or more industrial representative bodies. The concept of a voluntary agreement – rather than a unilateral relationship imposed through regulation – is one of the points that is most widely agreed upon.

The federations play a relay role between the Walloon government, through its administration, and Walloon companies. As a result, they ensure that agreements are efficiently implemented. During the proceedings, the federations expressed a desire to continue playing an important role in the next generation of agreements, in particular, a role as a *'driving force, coordinator and consolidator within their sector'*. In recent years, sectors other than the current industrial sectors have repeatedly expressed their desire to participate in the ADB2.

It should be possible to continue pooling company results within representative bodies or geographic regions, depending on the nature of the synergies that are identified. The establishment of 'carbon communities would make it possible to offer a global and horizontal approach to energy transition.'

The proceedings then focused on the goals and scope, that is, the CO_2/energy ratios in climate goals and the nature of the obligations.

An ADB2 company is committed to achieving two results that, on occasion, conflict with one another: one in terms of energy and the other in terms of CO_2. One area for improvement may be separating the performance indices for energy and CO_2, that is, analysing energy production and energy consumption separately.

The Walloon political ambitions of the Regional Policy Declaration encourage the building of a new mechanism based on broader, more diversified goals, as well as expanding the targeted participants. Energy efficiency, as well as the use of renewable sources of energy, the promotion of actions that fall outside of the scope and the recycling of CO_2 could be tools for reducing greenhouse gases.

The development of the model in parallel with changes that are inherent to the life of a companies, via structural corrections or cyclical adjustments, should be continued, in accordance with various international regulations.

[1] Concept to be defined within a new mechanism, but which would be inspired by energy communities (SER or citizen), in order to meet the specific needs, challenges and potential of our companies in their transition to carbon-free.

One key perspective is extending the scope by creating carbon communities. Agreements must no longer be limited to the internal scope of the company but emerge from it (external scope) in order to enhance all of the initiatives and actions undertaken by the company, under its direct responsibility, in parallel with the development of new relationships within the industrial ecosystem (symbiosis, short circuits, pooling of resources, etc.).

Contingency clauses that permit the contract to be renegotiated in the event of a change to external circumstances (of a financial, technical or commercial nature, or otherwise) could be included in the next mechanism.

The next aspect covered during the proceedings focuses on the economic, social and legal compensation that is needed for the correct operation of a voluntary agreement.

The most important forms of compensation for ADB2 affect the price of energy. However, this type of compensation, which is key to keeping companies competitive, is counter-productive in terms of the commitment to reducing CO_2 emissions and saving energy. The question of whether or not competitiveness and the commitment to reducing energy consumption and CO_2 emissions need to be linked must be raised.

Many obstacles to funding projects concerning energy efficiency and reducing CO_2 emissions have been identified. These can be intrinsic to the company itself or connected to investment projects. As a result, it is important to support companies with their investment projects and to encourage action. In addition to financial incentives, it is necessary to provide aid in the form of support, in terms of knowledge and access to certain skills.

Many funding options exist in Wallonia and Europe to assist companies. The new mechanism should facilitate communication and companies' access to this funding.

The last portion of the proceedings focused on the element required for good governance and monitoring of the agreement, in terms of both the methodology and the steering committee.

The proceedings confirmed that the ADB2 methodology is a high-quality tool that makes it possible to establish relevant energy models over time and to measure the impact of improvement measures. The methodology provides a common structure for all of the companies and complies with international standards in this respect. It also allows the authorities to obtain the necessary information for granting bonuses and financial incentives, as well as carrying out *reporting* activities nationally and internationally.

However, efforts should be made to involve the general management of companies in the agreement process, without alienating them with excessive technicality. To this end, the Steering Committee, which manages the ADB2, is a space for making decisions and encouraging consultation between stakeholders. Its composition could be expanded to ensure greater transparency and better communication.

2. PURPOSE OF THIS DOCUMENT

In its 2019–2024 Regional policy declaration, the Walloon government committed to performing an overall evaluation of the 2nd-generation branch agreements, in order to help it to establish a new generation of agreements focusing on a long-term goal of carbon neutrality for companies in Wallonia.

This document represents the comprehensive analysis report and its executive summary, which are to be presented to the Walloon Government and Parliament. This report complies with the technical clauses for the predetermined period of specifications no. 04.04.02-20-1117 in the public services contract, concerning feedback on 2nd-generation branch agreements and the preparation of 3rd-generation branch agreements.

3. INTRODUCTION

Since 2003, the Walloon government has wanted to sign voluntary agreements with its industrial sector, with the aim of improving its energy and CO_2 performance. Between 2004 and 2012, 205 sites, spread across 16 federations, committed to an innovative process, which was based on environmental agreements: branch agreements. With more than two million tons of CO_2 avoided and 8 TWh of energy saved, it was clear that these agreements had to be renewed, but with a new generation of goals. As a result, the 2nd generation of branch agreements (ADB2) were signed for the 2014–2020 period and then extended until 2023.

These agreements end on 31 December 2023 and could be extended beyond this point. This can be done by evaluating the mechanism, establish the strengths and weaknesses of the mechanism and then suggest improvements. Indeed, it is necessary for the various stakeholders to gain perspective, which will allow each of them – and all of them together – to take on the ambitious climate goals that Wallonia has set for itself. In fact, in its Regional Policy Declaration, Wallonia is aiming for carbon neutrality by 2050 at the latest, based on a gradual trajectory to reduce greenhouse gas emissions, with an intermediary step of a 55% reduction (compared to 1990) by 2030.

This report, which has been drafted at the request of the Walloon government, provides feedback about the ADB2, based on a written consultation and a broad oral consultation in the forms of six webinars, both of which are supported by the expertise of the Pirotech, Janson & Deplasse consortium.

The health crisis has had a significant economic and social impact. It is still too early to draw in-depth conclusions about the scale of this impact on our companies today. We already know that not every company has been affected in the same way: some, who have been impacted more severely, have resorted to technical and economic unemployment; on the other hand, others, who produce necessary goods or provide necessary services, have worked at full capacity. We will expect feedback from the federations during the steering committees in June 2021 and will evaluate the effects on the rest of this mission.

Similarly, Wallonia must examine the good practices that have been applied outside its territory. On one hand, in Belgium, with the renewal of the EBO[2] in Flanders until the end of 2022 and the audit of the environmental authorisation, large companies and the PLAGE mechanism in Brussels. On the other hand, abroad, with the voluntary FEDIL agreement in Luxembourg, the establishment of an ISO50001 in Germany or the development of voluntary agreements based on the energy efficiency of local industries (Denmark, Italy, Spain, Sweden, etc.). These points will also be elaborated on in a further analysis step.

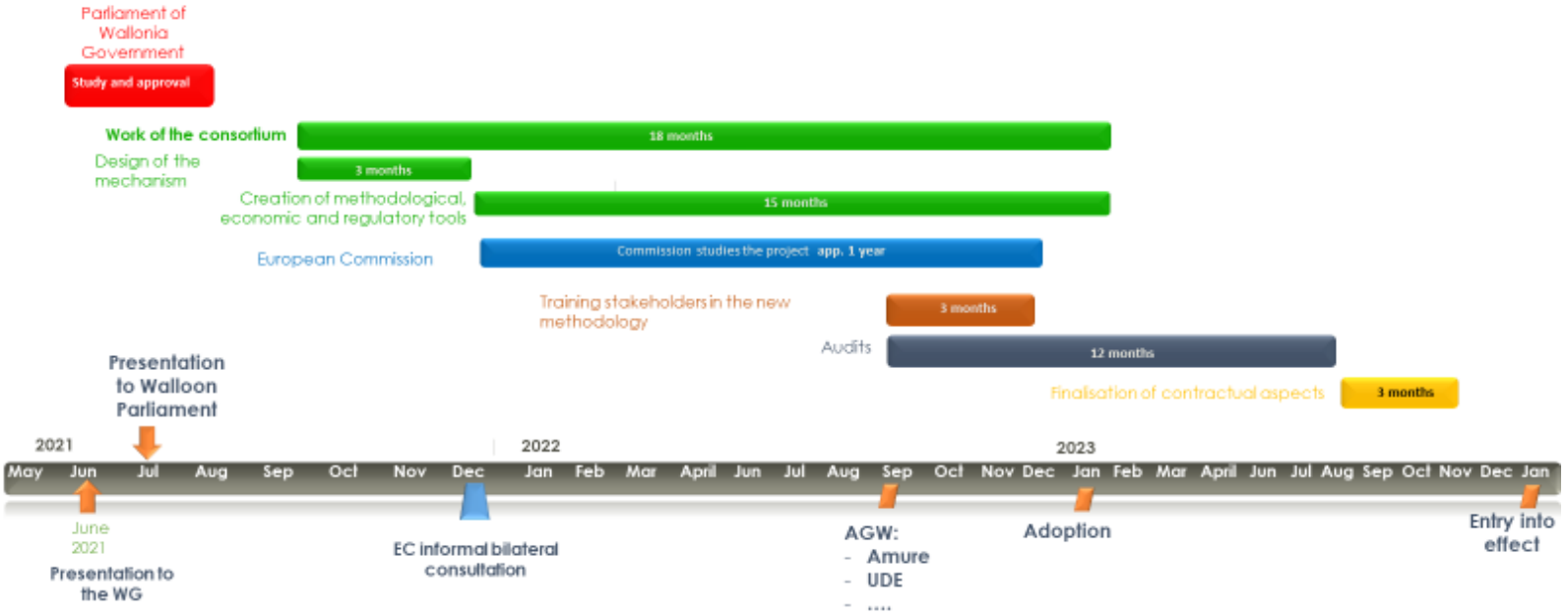
The challenge of this mission to extend and renew the Walloon agreements concerns size: proposing the legal, economic and methodological framework for a new voluntary agreement (which is somewhere between an evolution and a revolution) that receives the broadest support from all stakeholders, including authorities, companies and their representatives, but also workers and civil society. This agreement should strive for a competitive, low-carbon economy, in particular by relying on innovative technologies and a circular economy. However, this will not be starting from scratch. On the contrary, it will be based on feedback from the first two generations of agreements, in order to keep them going, by rectifying their weaknesses in light of the new challenges before us.

Time is short, as the retro-planning below illustrates, to ensure that a new agreement enters into effect on 1 January 2024. The first stage in this planning involves approving the development of a new mechanism, on the basis of this report. The guidelines for this new mechanism must be validated by the Walloon government by 1 January 2022. We will then use the year 2022 to design this new mechanism in detail and inform and train stakeholders. The year 2023 will be dedicated to setting goals and signing new agreements.

However, this tight schedule means that we must limit the scope of options: as a result, we have four months, from September to December 2021, to design (and approve) the bases for a new mechanism.

If the deadline of 2023 is set by the expiration of the ADB2, the more detailed schedule may change to take into account, for example, the government validation stages and synergies with other mechanisms in Wallonia, such as the Walloon Recovery Plan.

[2] From Energiebeleidsovereenkomsten in Vlaanderen 2015–2022


Parliament of Wallonia Government
Study and approval
Work of the consortium
18 months
Design of the mechanism
3 months
Creation of methodological, economic and regulatory tools
15 months
European Commission
Commission studies the project app. 1 year
Training stakeholders in the new methodology
3 months
Audits
12 months
Finalisation of contractual aspects
3 months
Presentation to Walloon Parliament
2021
2022
2023
May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar April Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar April Jun Jul Aug Sep Oct Nov Dec Jan
June 2021
Presentation to the WG
EC informal bilateral consultation
AGW:
- Amure
- UDE
- ....
Adoption
Entry into effect

4. FEEDBACK FROM ADB2

4.1. PRELIMINARY ANALYSIS OF THE OPERATION OF ADB2

An initial stage in these proceedings, concerning the preliminary analysis of the operation of ADB2, was the subject of a preliminary note, entitled 'AV2030_NotesyntheseADB2_20210226_v3'. This note discusses the ADB2 mechanism in a neutral and factual manner and is structured around four sections or 'poles'.

- **The societal, energy and climate pole** considers the concept of energy efficiency in Europe, covers the fundamental aspects of the branch agreements mechanism in Wallonia and lists the most recent goals and results;
- **The methodological pole** covers technical aspects, such as the choice of benchmark, the scope, the methodology for calculating the goals and monitoring of a company's performance;
- **The economic pole** quantifies the financial compensation that companies participating in the ADB2 benefit from: a reduction in excise duty on natural gas, a degression for federal gas and electricity contributions, a partial exoneration from the Elia surcharge on Walloon HP, a reduction in HP quotas, AMURE grants and CO_2 mapping subsidies;
- **The legal pole** deals with the legal context in which the ADB2 operate: environmental agreements and the state aid regime.

This note is included in Annex 1

This preliminary note ends by stating some of the main challenges, which we believe are important to deal with:

- responding to climate challenges, based on the three European pillars: energy efficiency, reducing CO_2 emissions and using renewable sources of energy.
- maintaining employment, the well-being of our workers, the quality of our products and the competitiveness of our companies;
- encouraging investments in low-carbon technologies;
- ensuring a balance between commitments and compensation;
- integrating the new mechanism into a legal, sustainable mechanism;
- ensuring a stable financial and legal outlook for our companies;
- obtaining the broadest possible membership from companies;
- extending the current mechanism to new stakeholders and sectors;
- ensuring a robust, reliable and viable methodology, including the specific features of each company and competent auditors.

This preliminary note became an essential tool for starting the written and oral (via webinar) consultations.

4.2. Feedback from consultations

By responding to the online questionnaire and/or participating in consultation webinars, more than 150 people have contributed to our feedback: the relevant administrations and ministers' offices, companies, industry federations and auditors, as well as various representatives of civil society (trade unions, environmental protection agencies).

The summary of the consultations is included in ANNEX 9

4.3. Critical analysis of ADB2 and outlooks

This chapter brings together the main ideas of our analysis. It is not structured around poles, but rather **themes**, which we have identified as essential. Dividing the analysis into poles, which were selected during the consultations, seemed less appropriate here, in order to consider the interactive effects and synergies between different poles. For example, the compensation envisaged within the framework of the ADB, as well as the energy prices charged, have economic, legal and methodological consequences.

The analysis is based on four 'block' themes, which are considered to be essential for creating the new mechanism.

	Untitled	Content
Block 1	**The form of the agreement**	We analyse topics related to the legal aspects of the voluntary agreement, the representative bodies, the role of federations, the pooling of results and 'carbon' communities.
Block 2	**Goals and scope**	We analyse the CO_2/energy ratio in climate goals and the nature of the obligations.
Block 3	**Compensation need for the correct execution of a voluntary agreement**	This compensation is economic, social and legal.
Block 4	**Aspects related to the monitoring of the agreement**	We analyse the elements required for good governance of the agreement, in terms of both the methodology and the steering committee.

For each of these 'blocks', we have analysed the strengths and weakness of the current mechanism (see critical analysis) and looked for and identified areas for improvements (see outlooks). Therefore, reading this chapter makes it possible to establish the main directions for the next agreement.

a) Form of the agreement

This key aspect includes:

- the environmental agreement; the voluntary agreement;
- the representative body; the role of federations;
- pooling; the carbon community.

Critical analysis

Within the meaning of the Environmental Code (in particular, Articles D82–D92, Part 6 of Book 1 of the Environmental Code, branch agreements are **environmental agreements** concluded between the region, on one hand, and one or more corporate **representative bodies** on the other. To date, only federations[3] have concluded agreements with Wallonia, but it is important to note that they are not the only ones to satisfy this definition.

Federations are overwhelmingly satisfied with the **median role** that they occupy in the structure of the ADB2. They act as a relay for Wallonia and companies and ensure that the agreements are implemented effectively. They have expressed a desire to maintain an important role as a driving force, coordinator and consolidator within their sector.

Sectors other than the current industrial sectors have repeatedly expressed their desire to participate in the ADB2. It should be noted that, in this context, the ADB2 methodology has been successfully applied to goods and services as varied as logistics, data centres, buildings, water treatment and more.

It should be recognised that **pooling** has many advantages: it facilitates greater proximity to companies, clear and familiar contacts within them, greater flexibility based on the specific features of each sector and coordinated and collective work. Conversely, it limits the transparency regarding return on investment for individual companies. Furthermore, the representativeness of this is never perfect: federations cannot have access to all of the information about the life of a company in real time.

Companies have affirmed their need for security and **long-term** goals. However, it seems difficult to skip steps every ten years, particularly due to the validity period for decisions by the European Commission regarding state aid. The 10-year **duration** is provided for in Article D.88 of the Environmental Code. This limit, which is already long from a company's point of view, must not prevent future mechanisms from being included in a longer-term outlook, through processes of continuous evolution, periodic re-evaluation and tacit renewal. This desire for very long-term planning (2030, 2040 or 2050) is a request from companies and federations, in order to define a better strategy for reducing greenhouse gas emissions. This would also make it possible to achieve the climate goals of authorities over time, in line with European objectives. The regular review of resources and goals, and their adaptation to changes in companies' situations, are also crucial.

[3] With the exception of three individual companies

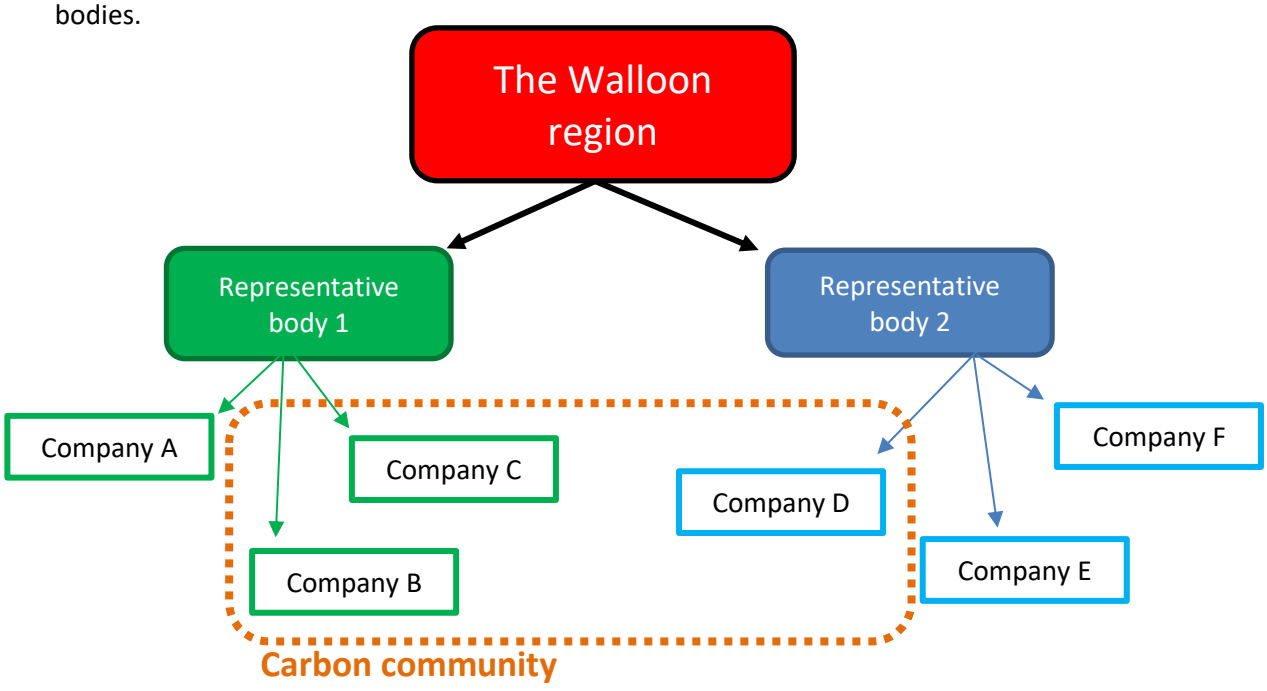
Outlook

The concept of a **voluntary agreement** – rather than a unilateral relationship imposed through regulation – is one of the points that is most widely agreed upon by all of the stakeholders. This, therefore, would be something to maintain.

Another type of environmental agreement is provided for in Articles D.92 - 1 et seq. of the Environmental Code: the **environmental transition agreement**. This aims to mobilise stakeholders in a dynamic and collaborative process, which aims to encourage environmental transition in a specific field. Its simplified formalism makes it more accessible to use in theory and will undoubtedly be in greater demand in future.
However, the environmental transition agreement has not yet found its place within climate policy and its use remains minimal.

Another area for improvement could be the opening of the agreements to **new stakeholders**. To this end, a new concept of 'company' and new selection criteria (size of the company, amount of energy in the company, etc.) could be defined.

All of the parties agree to bolster the logic of cooperation and collaboration between companies, rather than pursuing individual goals. Reflection on the pooling of results should therefore be able to continue within representative bodies or geographic regions, depending on the nature of the synergies that are identified. The establishment of a **carbon community** offers a global and horizontal approach to energy transition. This new method is supported by European institutions and states and makes it possible to encourage creativity and search for new synergies. Additional efforts and the pooling of goals makes it possible to achieve a more significant result than the sum of individual efforts. The scope of the carbon community is not limited to energy efficiency but may concern the reduction of greenhouse gas emissions or the usage and/or production of green energy.
The carbon community may comprise companies that are affiliated with different representative bodies.



b) Goals and scope

This key aspect includes:

- Climate goals (EE and SER aimed at reducing the number of tons of CO_2 emitted);
- Goals: to commit to making an improvement or achieving a goal? = nature of the obligations (result/resource).

Critical analysis

An ADB2 company is committed to achieving **two results**: one in terms of energy and the other in terms of CO_2. In some cases, the means to achieve one or the other of these results may **conflict**. Some methods for reducing CO_2 emissions have a negative impact on energy efficiency. As a result, there may be a degree of legal uncertainty for companies, in terms of whether they will achieve both of these objectives at once.

Debates also focused heavily on the **nature of the obligations**: result or means[4].
The obligations of result within the ADB2 are a strong incentive to achieve the established goals. They also facilitate the pooling of goals. However, companies that fail due to external factors face a substantial burden of proof. It should also be noted that the result goal, which is expressed as a percentage of consumption or a benchmark emission, may sometimes be difficult to achieve in a growing company, due to the dilution effect for results in an economy with an expanding scope.

ADB2 are focused on energy efficiency and the equivalent translation of this in CO_2. They make it possible to measure significant improvements in energy efficiency, thanks to a focus on the **internal scope** (buildings, processes, utilities, etc.). On the other hand, one criticism that emerged during the consultations is that we did not encourage enough reflection on the external scope. For example, the methodology does not make it possible to quantify the improvements made in terms of energy outside of the scope, such as the external recovery of waste heat or the development of heating networks, etc.

The ADB2 chose **2005 as a benchmark year**. This decision made it possible to reveal and consider the effort made by companies before signing the agreement on 1 January 2014. This reflects the idea of a continuous effort by companies. This strength was noted during consultations and stakeholders expressed their desire to continue highlighting this **past effort** in future agreements. However, considering this past effort has the disadvantage of inflating the overall goal, which can sometimes

[4] As a reminder, these two concepts primarily concern the burden of proof when it comes to their execution:

- An **obligation of result** assumes that the obliged party commits to achieving a specific result, so it is sufficient to demonstrate that the result has not been achieved to engage the liability of said obliged party, unless they can demonstrate a reason that justifies their failure to perform. This proof is the responsibility of the obliged party, in this case, the signing company.
- An **obligation of means** assumes that the obliged party commits to doing everything necessary to achieve the specific result. If the result is not achieved, it is the responsibility of the party who wishes to engage the liability of the obliged party to demonstrate that they have not used the means at their disposal.

mask less ambitious future efforts. Moreover, a benchmark year that is too far away makes it more difficult to access the data to be collected. This increases the risk of it being **unreliable**.

One of the main strengths of the methodology is the ability to **adjust the benchmark** for the model by considering structural corrections or cyclical adjustments. These types of adjustments comply with various international regulations (ISO 50006, IPMVP, etc.).

Energy-conversion coefficients are based on national or international benchmarks. Establishing these coefficients is a political strategy: what technologies should be prioritised in future? One criticism that arises very often concerns the electricity-conversion coefficients, which do not reflect the situation in Belgium. The CO2 coefficient used in the branch agreement is three times higher than the average Belgian mix included in many other reports[5]. In terms of the conversion coefficients for fuels such as natural gas, these only consider a portion of the energy of the fuel internationally[6]. This favours the production of heat via combustion, which could damage the image of the ADB2.

Outlook

In its Regional Policy Declaration for Wallonia, the government committed to a 55% reduction in greenhouse gas emissions by 2030. This effort will continue until carbon neutrality is achieved in 2050. Within this framework, the Walloon political goals of recent years encourage the creation of new mechanisms based on **broader, more diversified goals**, that is, no longer based solely on energy efficiency. Therefore, energy efficiency, as well as the use of renewable sources of energy, the promotion of actions that fall outside of the scope and the recycling of CO_2 could be tools for reducing greenhouse gases.
In other words, this would mean a paradigm shift, moving from **energy** to **climate transition** and the **environment** in general. This could result in more cohesive policies and the strengthening of synergies between different sub-sectors in terms of the environment.
However, caution should be exercised in this regard, since the simultaneous existence of several systems, and the division of powers within the ministries, could damage overall cohesion. Furthermore, the risk of overlap between multiple mechanisms could have unexpected consequences, even in terms of dual subsidies and non-compliance with European requirements.

In addition, but within the same framework of restructuring or streamlining, one idea for improvement suggested by several people may be **separating and prioritising** the performance indices for energy and CO_2, that is, analysing energy production and energy consumption separately.

One key perspective is **extending the scope**, for example, by creating carbon communities. Agreements must no longer be limited to the internal scope of the company but emerge from it (**external scope**) in order to enhance all of the initiatives and actions undertaken by the company that are under its direct responsibility. As a result, we could consider (and therefore encourage) energy exchanges between companies and recover outgoing energy from companies, which could be made available to other sectors in a useful manner. We could even consider going as far as creating a single model, or shared scope, within multiple companies, which would thus share the same goals.

[5] For more detail on this matter, see the preliminary note, methodological pole 4) Calculating performance, p. 8.
[6] This does not take into account the latent heat of combustion fumes, nor losses from production or distribution that fall outside of the scope

It is difficult to choose between the **obligation of result and obligation of means** mechanisms. It would be incorrect to assume that the former is merely a more binding version of the latter, since it all depends on the scope of the obligation. When it comes to evidentiary rules, it is often deemed most sensible to place the burden of proof on the party for whom it is easier to demonstrate the correct or incorrect execution of the obligation. Both forms of obligation, therefore, could be considered, depending on the particular situations encountered in the companies. Moreover, it is also possible to create hybrid tools, in which the agreement would be based on clauses that include elements of obligations of result and means.

Additionally, **contingency clauses** could be included in future mechanisms. The purpose of the contingency, or *hardship*, clause is to make it possible to renegotiate the contract if a change to external circumstances (this can be financial, technical or commercial, or otherwise) occurs[7]. In anticipation of a future contractual imbalance that makes the continuation of the contract difficult, the parties opt to resolve this through negotiations. This clause makes it possible to maintain the general balance of the contract for its entire duration, via a reciprocal concern that considers the interests of the parties.

c) Compensation

This key aspect includes:

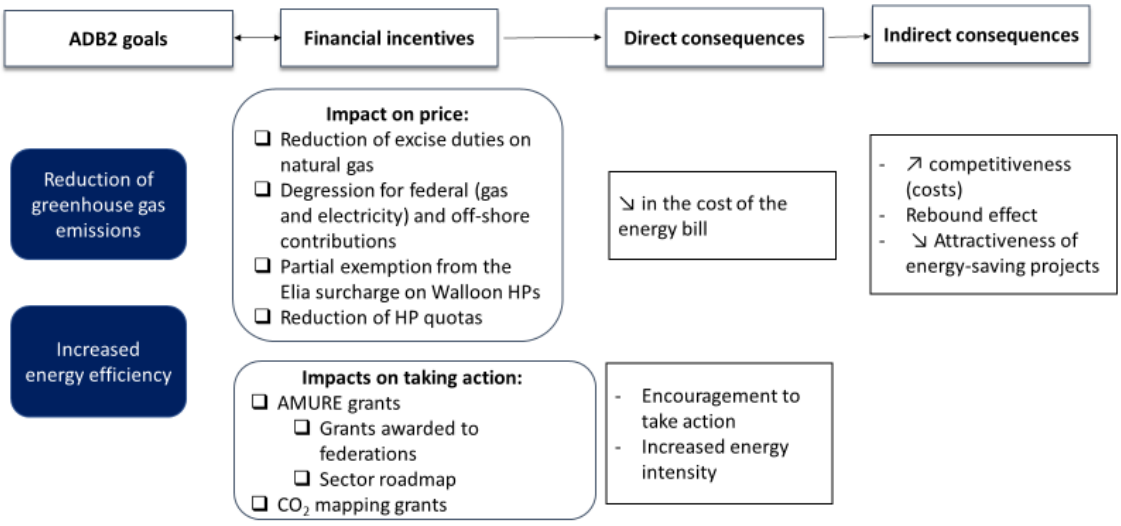
- financial compensation that reduces the price of energy and incentives to take action;
- assessing the profitability of suggested investment projects, within the context of audits;
- obstacles to funding for projects concerning energy efficiency;
- a *standstill clause.*

Critical analysis

Financial compensation and incentives that encourage companies to take action

Within the context of ADB2, different forms of financial compensation are awarded to companies in exchange for improving their energy efficiency and reducing greenhouse gas emissions. The most important forms of compensation affect the **price of energy**. Others, pertaining to audit grants, encourage companies to **take action**. It has been noted that financial incentives that affect the price of energy, thus ensuring greater competitiveness for the companies who receive them, are also counter-productive, since they reduce the profitability of energy-saving projects (by extending the time needed to see a return on investment). The various forms of compensation implemented as part of ADB2 are summarised in the diagram below.

[7] Very careful attention should be paid when drafting this. In particular, it should include:
- the methods for rebalancing the contract (searching for the most appropriate solution to eliminate the perceived imbalance, by amending certain contractual provisions, if necessary);
- the solutions to adopt if the parties fail to come to an agreement on how to rebalance the contract (relying on a mutually selected or court-appointed third party);
- the financial terms of any conciliation.



Compensation included in ADB2

Subject: Benchmark for the energy tariff breakdown

Below is a comparison of the energy tariffs (gas and electricity) applied for the following industrial profiles:

Gas

Customer type	**G0**	**G1**
Consumption [MWh]	1250	100000
Connection	Distribution	Distribution

Electricity

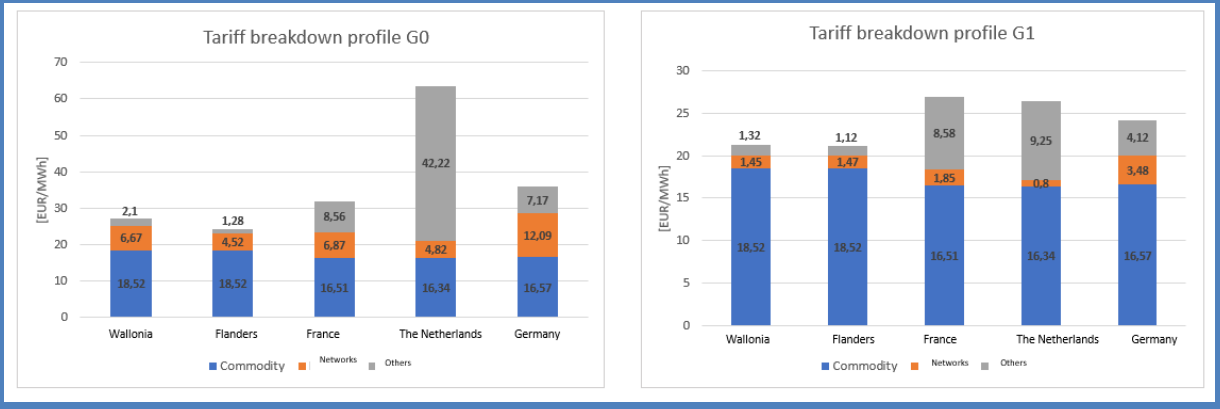
Customer type	**E1**	**E2**
Consumption [MWh]	10000	25000
Connection [kVA]	3125	6944
Connection	Distribution	Transport

The tariff data presented here is taken from the report drafted by PwC for the CREG in 2021. The obvious advantages, in particular thanks to the branch agreements and other kinds of voluntary agreements, are taken into account. Furthermore, carbon leakage is also taken into account in this study, particularly for France.

These analyses made it possible to show that the price of gas in Wallonia is sufficiently competitive compared to neighbouring countries and regions, as shown in Figure 3, even if it is not the most attractive price.

Subject: Benchmark for the energy tariff breakdown (continued)

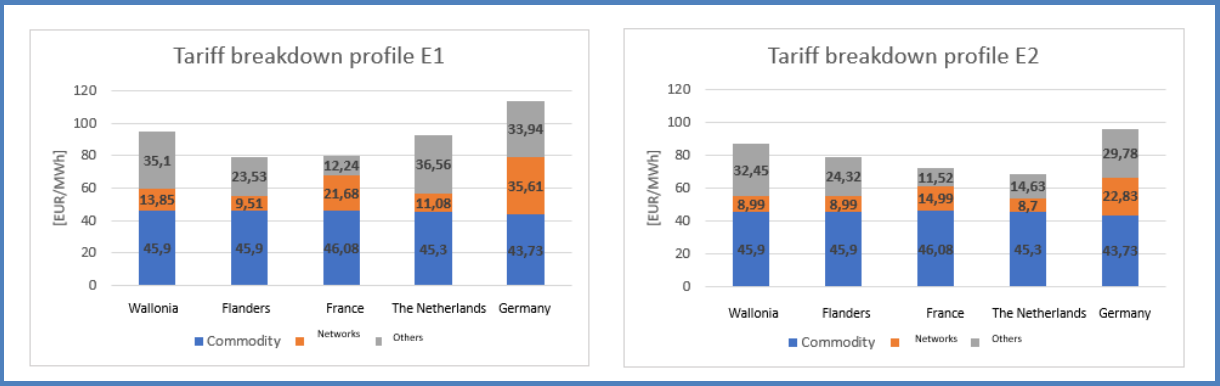
Figure 3: Tariff breakdown for G0 and G1 profiles



Source: *CREG (2021)*

In terms of the price of electricity, Wallonia would be the second most expensive region, after Germany, as seen in Figure 4. Therefore, in order to maintain a certain level of competition among Walloon companies, the price of electricity must be monitored very closely, even more so due to the expected increase in the tariff breakdown because of the implementation of the CRM (Capacity Remuneration Mechanism) or the gradual increase per ton of CO_2.

Figure 4: Tariff breakdown for E1 and E2 profiles



Source: *CREG (2021)*

Assessing the profitability of suggested Investments, within the context of audits

The **'Simple return time'** (SRT) method is currently used to assess the profitability of investment ideas proposed as part of the ADB2. However, while this measurement is easy to apply, it does not allow us to envisage long-term scenarios by considering all operating cash flows (investments, expenses, revenue, etc.) generated throughout the entire period of use.

Obstacles to funding for projects concerning energy efficiency

Walloon companies that want to fund investment projects aimed at reducing greenhouse gas emissions and/or improving their energy efficiency initially encounter **difficulties connected to their intrinsic features**. The main obstacles experienced by companies primarily concern the following elements:

- the general solvency of the company;
- the financial situation of the company and its level of debt;
- under-capitalisation and low equity;
- a lack of knowledge among certain companies about the funding and mechanisms available, in terms of both public and private sources;
- administrative processes concerning the drafting of applications;
- difficulty gaining access to information about the various funding options, particularly for small companies.

There are also **obstacles inherent to the nature of investment projects that aim to reduce the company's carbon footprint**:

- The profitability of some projects is highly dependent on the development of energy prices. As a result, the low level of energy prices at present exerts a structural pressure on the profitability of investment projects concerning the energy efficiency of companies;
- The time taken to see a return on investment for projects to improve the energy efficiency of companies is particularly long compared to what is typically expected by funding bodies (and also the companies themselves). The time taken to see a return on investment is also extended in a cyclical context with cheap energy and a system in which negative environmental external factors are not reflected in the cost structure for companies (particularly companies that are not covered by the ETS system);
- The technological risk for projects that are part of the transition to low-carbon may be greater;
- Funding bodies also have limited access to information about the environmental and financial impact of the planned investments. This finding is connected, on one hand, to a certain level of asymmetry in terms of information, but also the need for the bodies to have the relevant technical expertise.
- Most of the time, companies will favour investments that relate to their core activity.

These various obstacles make it harder for companies to access funding that will cover their investment needs in terms of energy efficiency. Thus, it is important to act on these parameters, in order to stimulate demand and support companies with their investment projects.

In accordance with Article D.84 of the Environmental Code, no regulatory provision may impose more restrictive conditions on the issues regulated by the agreement for the entire duration of the environmental agreement. This provision of the decree provides great stability for signatories. This stability will be crucial in view of the efforts that must be made in the coming decades.

This '***standstill* clause**', that is, the commitment of public authorities not to impose new legislative or regulatory requirements that extend beyond the scope of the requirements of the agreements for their duration, is already a major compensation for participating companies. A sector that does not wish to be party to a similar agreement would not benefit from it as a result.

It is important that this stability mechanism is maintained in the future, as was highlighted during the consultation conducted by the legal pole.

Outlook

Financial and non-financial compensation

To date, the ADB2 have been an important tool for improving the competitiveness of Walloon industries, in addition to serving as a tool for energy efficiency and reducing CO_2 emissions. In order to support Walloon companies, it is important to maintain, or even strengthen, the development of mechanisms to support competitiveness, of course, but this must be done without making them contingent on the achievement of energy/environmental goals. Since the competitiveness of Walloon industrial sectors is increasingly a matter of international concern (sometimes even within the group), it is important to consider the various factors that influence production costs, including, in particular, salary costs, intermediate consumption (energy and non-energy), the tax system, etc. To this end, the price of energy is one of the parameters to be considered in order to bolster the competitiveness of Walloon industrial sectors, but it is certainly not the only one.

Therefore, within the context of a new agreement, the question of whether the necessary link between competitiveness and the achievement of energy and CO_2 goals must be maintained arises. It would be wise to focus on the forms of compensation that encourage companies to **take action**, through increased support for the transition to low-carbon operation (including, in particular, the development of projects that aim to reduce greenhouse gas emissions, improve energy efficiency, develop circular economy projects, etc.).

In addition to financial incentives, it is important to provide aid in the form of support, in terms of **knowledge**. These needs of companies, in terms of human resources and skills, were mentioned numerous times during the evaluations. Indeed, companies have limited resources and are faced with changing needs, so assistance like this would be a useful addition for most of them.

Companies are requesting more **communication** with public authorities, in order to maintain a centralised and comprehensive overview of the financial tools available.

Assessing the profitability of suggested Investments, within the context of audits

In order to align with the approaches followed within the framework of the mandatory audit, which is provided for by Article 8 of EU Directive 2012/17, and to consider all of the costs and revenue generated for the usage period, the net present value (NPV) or the internal rate of return (IRR) could be used to estimate and categorise the profitability of avenues for investment. The NPV is an indicator that measures the profitability of an investment. It is calculated as the sum of the cash flows generated by this investment and updated based on their distance over time. A project is deemed to be profitable if the NPV is positive. Within this same framework, the internal rate of return corresponds to the rate of the update, which cancels out the net present value of a series of financial flows.

Funding available to respond to identified obstacles

Many funding options exist to help companies fund their projects concerning energy efficiency, depending on their situation. In addition to private funding bodies (banks, funds and private investors),

Walloon funding tools (Novallia, Sowalfin, SRIW, Sogepa) can help companies, depending on their characteristics.

Various funding options exist, including, in particular, standard loans, loans with advantageous rates, equity investments, subordinated loans or even third-party investors. The specific feature of third-party investors is that they ensure funding for the project, as well as the provision of funds, and is gradually paid back via the energy savings that are generated by the investment. This system of acquiring funds from third-party investors makes it possible to respond to the various obstacles encountered by companies in funding their energy efficiency projects, such as the lack of equity, difficulties in accessing credit, the lengthy period taken to see a return on investment, or even the lack of the required technical skills.

Within the context of a new agreement, the question of how well understood and accessible these various funding tools are arises. For example, it would be wise to establish a single point of contact for companies to provide up-to-date information about sources of funding. This point of contact would also make it possible to respond to the difficulty encountered by companies when accessing European funding (in particular, within the context of the Green Deal), such as the innovation fund.

d) Governance and monitoring of the agreement

This key aspect includes:

- the role of the steering committee;
- normative standard, complexity and simplification;
- regulatory convergence and reporting.

Critical analysis

Various regulatory documents cover the necessary criteria for conducting an energy audit (EED Directive 2012/27, EN 16247 and ISO 50000 standards, etc.). These different regulations establish a general framework, but do not define the details for execution. The ADB2 methodology proves a **common structure** for all companies. It makes it possible for the different auditors to conduct an auditor with consistent quality, reporting and follow-ups. It can be adapted to the type of company and the activity sector and, as a result, can be used by a wide variety of stakeholders. It also allows the authorities to obtain the necessary information for granting bonuses and financial incentives, as well as carrying out *reporting* activities nationally and internationally.

The ADB2 methodology was a great asset: a **high-quality tool for monitoring** the energy and CO2 performance of industrial companies. This tool makes it possible to establish relevant energy models over time and to measure the impact of improvement measures. These quality results were obtained as the joint result of the quality of the auditors, the mandatory training, the involvement of the federations and the role played by the technical expert and independent auditors.

However, several shortcomings can be mentioned:

- follow-up audits are sometimes poor quality, or use an outdated energy model;
- energy accounting in companies is sometimes absent or insufficient, resulting in poor-quality data being sent to auditors;

- an energy model may become overly complex;
- activity indicators are sometimes tricky to define;
- the consolidation of results may be poorly digitised.

One weakness that was mentioned several times during the consultations was the perception of a certain degree of **technical complexity**, or even excessive technicality, in the agreement. The field of energy audits is, by nature, complex and requires significant technical expertise. As a result, some discussions focus a lot on technical aspects and company leaders entrust the monitoring and execution of branch agreements to experts. The 'top management' risks feeling out of the loop and branch agreements may then stop being a priority for general management.

Another criticism raised concerns the **lack of access to information** about possible assistance when carrying out actions. The poor external communication of the results of the agreement could also be highlighted.

Feedback about the **weightiness of the reports** was quite mixed. This is undoubtedly a result of the fact that the obligations pertain to very different situations, but in a similar way. As a result, companies highlight the need for adaptability and to consider variable restrictions depending on the sectors, size, etc. In particular, the following were mentioned: the fact that reporting deadlines for various sources are simultaneous; the excessive frequency of the work by auditors and annual reports.

The **Steering Committee** is the governing body for the ADB2. It is also a space where the stakeholders can meet in the event of a dispute, disagreement or issue. This conciliatory space represents the implementation of the dialogue policy from the Walloon authority. This body makes it possible to react in a timely and coordinated manner, since it is made up jointly (public authority and companies). Feedback from stakeholders emphasises the importance of this committee and its role as mediator. On the other hand, some people highlight a lack of transparency and, in particular, the fact that representatives of workers and civil society are not represented on it. This results in a deficit of information provided to workers about their company's adherence to ADB2 and a weaker understanding of the challenges.

Outlook

Generally speaking, the role of the methodology is accepted by most of the stakeholders. Of course, it is important to find the right balance **of simplicity and complexity**. It is not easy to create an industrial process with simple indicators; however, an excessively exacting standard, on the other hand, incurs additional costs and work, which may penalise the implementation of the action plan.

The methodology that will be proposed must fit into a context of **international** standards and regulations, an agenda and a reporting framework that ensures optimal consistency and administrative streamlining.

In order to simplify reporting procedures and the consolidation of results, it would be very helpful if PSW Energy established a database that compiles the necessary information for monitoring the agreement. This database should ideally communicate with, or connect to, the *Regine* and ETS databases. The technical validation of the results could then be performed upstream of the steering committees.

Companies and auditors are requested more **communication** with public authorities, both in terms of monitoring and the visibility of the financial tools available. Conversely, the public authorities could establish a label linked to the voluntary agreement, in order to highlight the most successful companies.

The dominant role of the steering committee calls for certain improvements, in order to move towards a more participatory form of **governance**, with the support of a potential monitoring committee. This would help to increase membership and involvement for all participants. In this respect, the importance of not making the execution of agreements overly rigid was mentioned. In the event of a breach of certain obligations, it is always preferable to foster a dialogue between the parties that aims to define a mutually beneficial solution, rather than getting caught up in a binary logic of execution/non-execution. While this option is always available to the parties, it may be useful to institutionalise and formalise this way of doing things. The same is true when one of the parties exits the agreement.

Finally, good governance is impossible without greater involvement of the *'top management'*. In small companies, a limited number of people can very often prevent the creation of real *Energy Teams*. However, the application of branch agreements is at the discretion of the employer. One possibility that was raised during the consultations is the creation of an annual meeting intended to disseminate good practices and better support small businesses. A meeting like this would also make it possible to share knowledge and train those who are new to applying agreements, in the event that the assignment changes or staff are moved around within the company. Furthermore, the knowledge acquired by the top manager could then be transferred to those who are lower down in the hierarchy.

5. CONCLUSIONS

This report presents feedback about 2nd-generation branch agreements (ADB2), following written and oral (in the form of workshops) consultations with more than 150 people. It follows a preliminary analysis note about the operation of the ADB2 ('AV2030_NotesyntheseADB2_20210226_v3') and a summary of the contributions of the consultation, which are an integral part of this report but have been placed in the annexes to improve readability.

In light of the aforementioned consultations, the ADB2 are seen as a useful, reliable and proven tool:

- useful – they allow companies to set goals for energy efficiency and reducing greenhouse gas emissions and allow authorities to monitor the results on an annual basis;
- reliable – they are based on quantifiable data, which is updated and traceable by independent auditors and managed by steering committees;
- proven – they are based on an auditing methodology that has been progressively implemented since 1998.

However, this tool also has limitations and is probably no longer fully suitable, in its current state, to meet the goals for reducing greenhouse gas emissions set for 2030 and 2050. It should develop into a mechanism that leads to carbon-neutrality for the economy, while helping to bolster the competitiveness of companies and making them more efficient and adapted to the challenges of the future.

The ADB2 reports cover 230 companies annually and more than 90% of the energy consumption from the Walloon industrial sector. This includes a very wide range of industrial companies from 14 different industry federations. Their energy consumption profile and size are also very different. The results of the ADB2, therefore, are highly representative of industry in Wallonia and receive broad support from participants.

The consultants highlighted a significant consensus to continue this kind of mechanism on a voluntary basis. As a result, it is important to identify and implement appropriate levels of compensation to encourage companies to take action, in order to create a real win-win situation for signatories to the agreement and the Walloon government. Many participants expressed an interest in decoupling, where appropriate, this tool from the necessary financial aid, which is primarily aimed at ensuring the economic competitiveness of Walloon companies, who are faced with strong competition.

The ADB2 are managed by 14 steering committees. Their consultant role and more participatory form of governance has been appreciated by companies, federations and authorities. The opening up of steering committees to civil society, as well as the management of technical aspects of the methodology further upstream, are areas for improved that many participants would like to see explored. Even more generally, the communication of goals and results externally needs to be improved.

Companies have affirmed their need for security and long-term goals (with an outlook for 2030, 2040 or 2050), in order to better integrate these into a long-term, global strategic definition for reducing greenhouse gas emissions. The periodic review of resources and goals, and their adaptation to changes in companies' situations, are also crucial.

Finally, it should be noted that the next mechanism should make it possible to bolster the auditing tools needed to monitor carbon in industrial cycles and economic activities, within the framework of the Low-Carbon Strategy in the Walloon Recovery Plan.

6. ANNEXES