



*Promoting choice and
value to customers*

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22 August 2006

Dear Sir/Madam

ENERGY DEMAND REDUCTION PILOT - INVITATION TO BID

In the context of Ofgem's work to protect customers and promote a sustainable energy market, we are working to unblock barriers to smarter metering, which could improve customer service, increase energy efficiency, reduce fuel poverty and increase security of supply. Against this background, Ofgem has agreed with DTI and Defra to manage, on their behalf, the proposed energy demand reduction pilot. The purpose of the pilot is to enable Ofgem, central Government and other stakeholders to gather firmer evidence of customer response to improved information on energy consumption through a variety of measures.

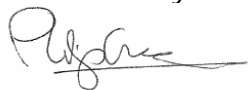
The pilot will consist of a number of trials, selected from industry proposals. Ofgem's role includes evaluating the bids, recommending a range of trials, compiling comparative results from individual reports, and delivering a final pilot report. This letter seeks firm bids from parties who wish to contribute to this important work. DTI will make final decisions on which projects receive funding.

Only trials conducted in Great Britain will be eligible for funding. Interested parties are asked to submit their bids by no later than noon on 29 September 2006. A detailed specification is provided in the attached annex. All bids must be on the basis that the applicant contributes a minimum of 50% of the total cost of their proposed project. Participants will be required to meet deadlines and provide deliverables as a condition of the receipt of funding. These conditions will be set out when the contracts are awarded.

Ofgem will host a half day workshop on the pilot on 6 September to give potential applicants the opportunity to seek clarification on the requirements detailed in this document. DTI will also be available to answer questions on financial issues. We ask that those interested in attending reply by Tuesday 29 August as space will be limited.

If you have any queries and/or wish to attend the workshop please contact either Mark Baldock (Head of Metering: 020 7901 7221; mark.baldock@ofgem.gov.uk) or Louise van Rensburg (Ofgem Regulatory Economist: 020 7901 7270; louise.vanrensburg@ofgem.gov.uk).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Philip Davies', with a long horizontal flourish extending to the right.

Philip Davies
Director, Retail Markets and the Environmental Policy

ENERGY DEMAND REDUCTION PILOT – INVITATION FOR BIDS

Background

In this year's Budget, the Government allocated £5 million to the DTI to help finance a pilot study in Great Britain on the use of smart energy meters and feedback devices, including those which can be attached to existing energy meters. Subsequently, Defra agreed to provide further funding of £4.75 million. The combined fund of £9.75 million will be used to part finance an energy demand reduction pilot (*"the Pilot"*). Ofgem has agreed to manage this pilot on behalf of DTI (in terms of both drawing up recommendations for grant funding, and in overseeing the implementation and assessment of data arising out of the scheme).

The Government anticipate that the pilot will help inform the further development of its policies in relation to billing and metering, to fulfil the direction set in the Climate Change Programme and the Energy Review. It will also help inform the parallel work being undertaken on transposing the requirements of the Energy Services Directive into UK legislation by 2008.

The purpose of this document is to provide further details on this initiative and invite bids to be involved in the work. Only trials conducted in Great Britain will be considered.

Objectives

The objectives of the pilot are to:-

- undertake a series of trials of various approaches to reducing energy demand, including, in particular, through feedback mechanisms which provide increased information on energy consumption in order to influence the behaviour of domestic energy consumers
- evaluate the different approaches so as to identify those methods which encourage domestic energy consumers to become more energy efficient and reduce, on an enduring basis, their energy consumption.

Scope

The pilot, which will necessarily consist of a number of different trials, will focus primarily on the domestic energy sector. However, proposals to trial feedback mechanisms in the smaller industrial and commercial sector may also be included.

We expect trials of feedback mechanisms, including smart meters, to be a core part of the trial. Moreover, we expect that the pilot (though not all individual trials) will not only investigate initiatives in the electricity market, but will also include trials of smart gas meters (and associated separate display units), as well as innovative gas and electricity prepayment meters.

Individual Trial Focus

The pilot will comprise a number of individual trials on a range of specific approaches to encouraging consumers to reduce their energy consumption. Bidders may offer a single trial or a number of trials (including variants of trials).

Successful bidders will manage their individual trials in a manner which contributes to the objectives of the overall pilot.

The individual trials should cover **one, or more**, of the following: -

1. Methods to encourage energy efficient behaviour, without an advanced metering element. This could include:
 - a. providing additional information on bills (e.g. historical or comparative)
 - b. visual display units that work off existing basic energy meters to give an instantaneous reading of energy use to the consumer and other information such as the cost of energy, by way of a display device in the home
 - c. other innovative approaches to encourage consumers to become more energy efficient. These could include, for example, audits, advice, reward schemes, on line clubs to share information, tariff changes, promotional activities with local authorities, etc.
2. the use of energy meters that can be read remotely by the energy supplier and/or their agents to form the basis of better feedback to consumers as part of enhanced billing information. This could include looking at increasing the frequency of billing as well as the impact of more accurate bills
3. the use of energy meters that, in addition to being read remotely by the energy supplier and/or their agents, can offer consumers information about their consumption and cost of energy over different periods of time through (various) forms of visual displays
4. the use of energy meters that, in addition to being read remotely by the energy supplier and/or their agents, also provide energy consumption over different time periods and result in *"time of day"* or *"real time"* tariff offers to consumers.

Whilst we do not expect that individual trials will cover all these options, it will be the aim for the pilot as a whole, consisting of the individual trials that are funded, to be a balanced set of investigations covering, if possible, the full range of options described. This will be an important factor, alongside the quality of the individual bids, in the determination of recommendations for Government support.

Proposals for trials that cover more than one of the options and enable the relative effectiveness of different options to be explored, and the incremental advantage of additional measures compared with others (for example extra energy efficiency advice in addition to benchmark energy consumption information) will be welcome.

In all cases, the trials will need to investigate options that would be practicable to roll out on a wide scale.

Trial design

Information from the pilot needs to be robust enough to aid future decision-making. The statistical soundness of the trial will be an important selection criterion, in order to understand the implications for the range of GB customers.

Each of the individual trials will need to provide, as a minimum, the following:

- where trials are designed to investigate a combination of feedback methods, the samples will need to be split to distinguish the effects of providing the different types of information and the separate impacts on gas and electricity consumption, where appropriate. For example, if innovative billing is provided alongside visual display units, different groups of customers will need to receive different combinations of information
- where additional energy efficiency advice or other measures designed to change behaviour are provided in combination with the different options trialled, this impact will also need to be detailed separately, where feasible
- a control group must be part of the design in order to compare the consumption of trial participants to the current situation. This will help to eliminate the effect of factors such as weather and energy costs on consumption and could be used to assess general changes in consumption and ensure comparability between trials
- a breakdown of observed reductions in energy consumption between those that are a result of the way in which energy consumers use heating, lighting and appliances etc, those that are a result of specific energy efficiency measures (such as installing insulation, etc) and those that are a result of other factors (such as changes in the size of households)
- information on behavioural change in the short and longer term in order to understand the durability of any behavioural changes;
- an assessment of the impacts on different households (number of inhabitants and property size) and different customer groups (such as working couples, pensioners or family with a parent and children at home all day). It is particularly important for this assessment to consider whether behavioural changes vary between Priority Group and other households.

Funding principles

Bids must be on the basis that the applicant contributes a minimum of 50% of the total cost of the proposal. They will be expected to fund a higher proportion of the cost of proposals where this is possible, and credit will be given to such proposals in assessing value for money.

The total amount of grant funding available will be £9.75 million less a small proportion that will be required for Ofgem to manage the Pilot.

Of the money available:

- Up to £9.75 million¹ can be allocated for Capital Grants. These grants can only be used to trial smart meters and associated feedback devices.
- Up to £4.75 million can be allocated for current grants (to trial energy efficiency measures designed to change the behaviour of consumers).

DTI's capital grants have been allocated as £4 million to 2006/7 and £1 million to 2007/8. The current grants are all allocated to 2006/7. These facts will influence Ofgem's recommendations for the grants.

Nevertheless, Ofgem will also take in to account the Government's wish not to preclude companies/consortia coming forward with innovative proposals that would require a greater proportion of expenditure in 2007/8. In this connection, DTI have indicated that they have some flexibility that would enable them to consider, if there were suitable proposals, making some funds currently allocated to 2006/7 available at a later date.

The cost break down in bids must clearly specify where and when expenditure will occur, as individual bids will have their requested funds apportioned according to the criteria above.

Bids should be on the basis of a firm price (i.e. a price that is not subject to variation), though this does not preclude the submission of variant bids (where prices may vary depending upon the scale or the composition of the elements of a trial).

No variation to the Bids, once submitted, will be allowed unless it is authorised by Ofgem. However, Ofgem reserves the right to enter into negotiations and/or to seek further clarification from parties. In particular, this may be necessary where parties have submitted bids which are similar though not equivalent and where it would otherwise be difficult or impossible to compare such bids against each other on the basis of the predominant criterion of value for money and the specific criteria set out below.

Successful bidders will receive particulars of their grant funding from DTI. Payments will be structured according to the nature of the trial.

Trial timetable and required report dates

The pilot (and thus trials) will need to have information from at least two winters and two summers. We will require reports after each winter and summer from all participants, to collate the seasonal information and to ensure comparative data between the trials. Successful applicants will be provided with a standardised reporting framework to facilitate this comparison. All trials selected will be expected to provide data up to the end of February 2009.

Given the fact that the pilot will be made up of a number of trials of varying degrees of complexity, we acknowledge that some trials will be able to start sooner than others. To

¹ DTI's allocation is £5 million of capital grants and £4.75 million of current grants (the latter transferred from Defra). They have flexibility to vire the current grants to capital grants, but not vice-versa

facilitate those trials that can begin obtaining data from the 06/07 winter, we will have an initial reporting date of March 2007, with another report in July for the first year of the pilot to receive update information from all trials. We therefore seek trials to begin as soon as possible. We envisage the following timetable:

First trial report

- 30 March 2007: participants produce a first trial report on their individual trials, covering the period to 28 February 2007

Second trial report

- 30 July 2007: participants produce an interim report on their individual trials, covering the period to June 2007

Third trial report

- 28 September 2007: participants produce a report on their individual trials, covering the period up to 31 August 2007

Fourth trial report

- 31 March 2008: participants produce a report on their individual trials, covering the period up to 29 February 2008

Fifth trial report

- 30 September 2008: participants produce a report on their individual trials, covering the period up to 31 August 2008

Final Report

- 31 March 2009: participants produce a final report on their individual trials covering the period up to 28 February 2009
- 29 May 2009: Ofgem to produce final pilot report.

Bids

Applicants will need to provide full details on the design of the trial and must at a minimum include:

- details of the metering/billing/energy efficiency options to be trialled and how it contributes to the overall objectives of the pilot
- details of the proposed intervention in households (as this will be an important influence on consumers' subsequent behaviour) and, therefore, the interpretation of the results, including their repeatability on a larger scale
- a full project plan indicating key activities and key dates (both external and internal), determination of risks and appropriate controls and contingencies, etc. This should also include whether any exemptions from regulatory arrangements would be required.

- a clear demonstration of the statistical soundness of the trials, preferably providing an independent validation of the proposal
- details of the finance/resources to be committed by the bidder and the contribution required from government (the government contribution is up to a maximum of 50% of the total trial cost)
- a breakdown of the expected expenditure, including estimated costs between capital (smart metering and associated feedback devices) and revenue account (other measures), and when these expenditures are likely to occur.
- a commitment to fully sharing the results of the trial, including publication by an agreed date
- agreement to produce progress reports in the months specified by Ofgem (see Trial Timetable). The trial reports will include a standardised summary report, to be issued when successful bidders are notified, to allow comparison across trials
- the name and contact details of the proposed bid/project manager
- details of any experience in undertaking similar trials, if applicable, along with examples of previous activity undertaken.

The pilot will comprise of the group of trials selected, and therefore each trial will contribute to the overall outcome. Thus, Ofgem reserves the right to seek to amend trial proposals (through negotiation with parties and prior to award of funds) if required to facilitate comparison across trials.

Bids must be submitted to these terms of reference by no later than **noon** on the **29 September 2006**. A sealed bid process will take place, with all bids being opened at **4pm on the 29 September 2006**. No emailed bids will be accepted. Applicants must submit one original hardcopy of bid documentation and one electronic copy (compact disk).

Envelopes must be marked clearly with “Sealed Bid, not to be opened”.

Bids should be addressed to:

Mark Baldock
 Head of Metering, Retail Markets
 Ofgem
 9 Millbank
 London
 SW1P 3GE

Ofgem may invite some, or all, of the applicants to discuss their proposals further. These meetings will take place at Ofgem, 9 Milbank, London, SW1E 3GE during October. Ofgem plan to submit recommendations to DTI by 31 October 2006.

Ofgem will host a half day workshop on the pilot on 6 September to give applicants the opportunity to seek clarification on the requirements detailed in this document. DTI will also be available to answer questions on financial issues. Interested parties wishing to

attend this workshop should contact either Mark Baldock (Head of Metering: 020 7901 7221; mark.baldock@ofgem.gov.uk) or Louise van Rensburg (Ofgem Regulatory Economist: 020 7901 7270; louise.vanrensburg@ofgem.gov.uk). We ask that those interested in attending reply by Tuesday 29 August as space will be limited. All issues discussed at this workshop will be recorded and posted on our internet www.ofgem.gov.uk within 3 working days.

Selection Criterion

Ofgem will propose trials to form part of the pilot on the basis of those trials that offer the best value for money. The assessment of that criterion will be made against the following metrics/criteria:

1. the total value of government funds requested and the amount of private funding being contributed (which must be at least 50%)
2. what the trial proposal is seeking to explore, and how this fits in with the wider pilot (only trials in Great Britain will be considered)
3. ability to carry out the trials to timetable and within budget, including demonstration of sufficient technical understanding and expertise to undertake the areas of work identified
4. statistical soundness of trial design and sample size
5. reliable and appropriate access to customers' energy consumption information

As mentioned earlier in this letter, Ofgem will be aiming for the pilot as a whole to be a balanced set of investigations covering the widest possible range of interventions to influence consumer behaviour, within the financial constraints, to gather sound information. This will be an important factor, alongside the quality of the individual bids, in the determination of recommendations for Government support.

Ofgem contacts

Please direct any queries to:

- Mark Baldock, Ofgem Head of Metering (020 7901 7221; mark.baldock@ofgem.gov.uk)
- Louise van Rensburg, Ofgem Regulatory Economist (020 7901 7270; louise.vanrensburg@ofgem.gov.uk)