

EEEC UPDATE

Issue 12/April 2005

EEC 2005-2008 targets now in place

Through the EEC, energy suppliers have been set targets to achieve improvements in energy efficiency by providing energy efficiency measures to households across Great Britain.

The EEC is primarily a carbon saving programme and, as such, is part of the Government's Climate Change Programme. To ensure that the benefits of energy efficiency are shared equally among consumers, at least half of the energy savings must be targeted at the "Priority Group" – households which receive certain income-related benefits or tax credits.

Through this, the EEC also contributes to the Government's Fuel Poverty Strategy. Suppliers have flexibility in the types of energy efficiency measures that they provide to customers, such as insulation, lighting, appliances and heating.

These measures can be also promoted and delivered with a range of project partners such as social housing providers, charities, retailers and manufacturers. Suppliers can assist any domestic customer in Great Britain, whether their home is heated by gas, electricity, coal, oil or LPG.

Defra is responsible for setting the overall energy saving target, which was 62TWh for the EEC 2002 – 2005 ('EEC 1') and is 130 TWh for the EEC 2005 – 2008 ('EEC 2'). Defra plans to review the EEC by 2007 before setting a target for the period 2008 – 2011. Ofgem is responsible for administering the EEC.

The obligated suppliers are required to provide progress reports each quarter to indicate the energy savings each of their schemes have achieved and are forecast to deliver. This data is used to compile the EECUpdate.



Declaration, declaration, declaration! The Ofgem team with a small proportion of EEC 1 monitoring. From left to right: Emma Chetwynd, Kate Smith, Charles Hargreaves, Urszula Kulpinska and Fiona Kenyon

Energy Efficiency Commitment - Key Facts:

- **Delivery of the EEC 2002 – 2005 has ended**
- **Suppliers are submitting their final monitoring reports**
- **84 TWh of energy savings achieved over the three years**
- **The EEC 2005 - 2008 has now started**
- **60 new schemes have been submitted since January**

Activity – a busy start to 2005...

It has been a very busy year for suppliers (and Ofgem!) so far. The suppliers are submitting monitoring and completion reports for their EEC 1 schemes and are planning and starting their activity for the EEC 2005 – 2008. The latest quarterly reports indicate that measures have been installed to achieve a saving of 84 TWh.

The majority of these energy savings, 85 per cent, have been officially reported and suppliers have until the end of April to submit their remaining completion reports and monitoring data.

Chart 1: Energy savings, by measure type, achieved each quarter during the three years of the ECC

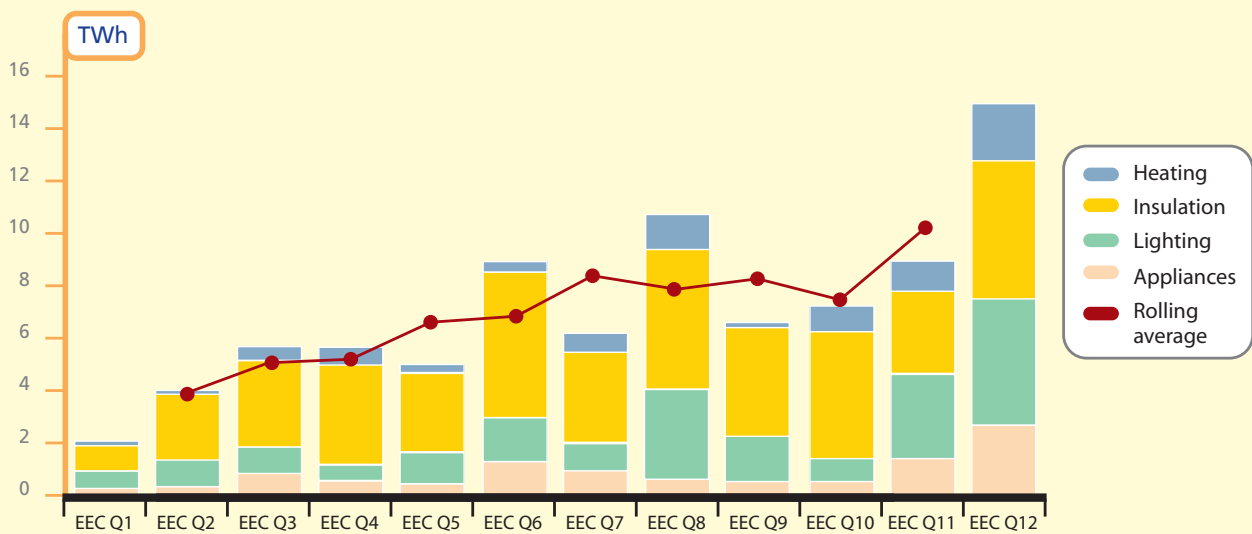


Chart 1 shows the energy savings achieved in the last three months of EEC 1, January to March, to be the highest of the programme. The indicative average quarterly savings that suppliers had to deliver to meet their targets was 5TWh.

Suppliers have exceeded this three-fold by installing sufficient measures in the last three months to save 15 TWh. Suppliers have ramped up their delivery of energy efficiency measures over the last six months despite the fact that they were on course to meet their targets. The reason for this increase has been that suppliers are able to carry over any excess savings to their new EEC targets.

Another reason for the marked increase is that the suppliers' quarterly reports provide an indication of the energy savings they have achieved. The actual energy savings are only confirmed once the supplier submits a

completion report, which is then approved by Ofgem. The suppliers may have previously provided a conservative indication of their delivery and, now the schemes are being completed, they are able to provide a more accurate quarterly return.

Ofgem is now in the process of assessing all of the suppliers' completion and monitoring reports. This work involves Ofgem checking the technical monitoring forms and customer satisfaction results from suppliers' schemes. An important part of our work is checking the declarations and agreements in place with project partners such as social housing providers and retailers. A small amount of this information is shown on the front page. Ofgem will publish information on the final outcome of the EEC in July and present it to the Secretary of State.

Measures installed

The latest quarterly returns show a relatively even split of the measure types. Insulation does continue to dominate, however, followed by lighting measures. The delivery of heating measures was the highest of the three years and doubled compared to the savings achieved between October and December 2004. One reason for this marked

increase may be due to suppliers promoting more boilers in the build-up to the changes in the Building Regulations on 1 April. **Chart 2** shows that the majority of heating measures have been provided to non Priority Group consumers.

(Measures installed continued)

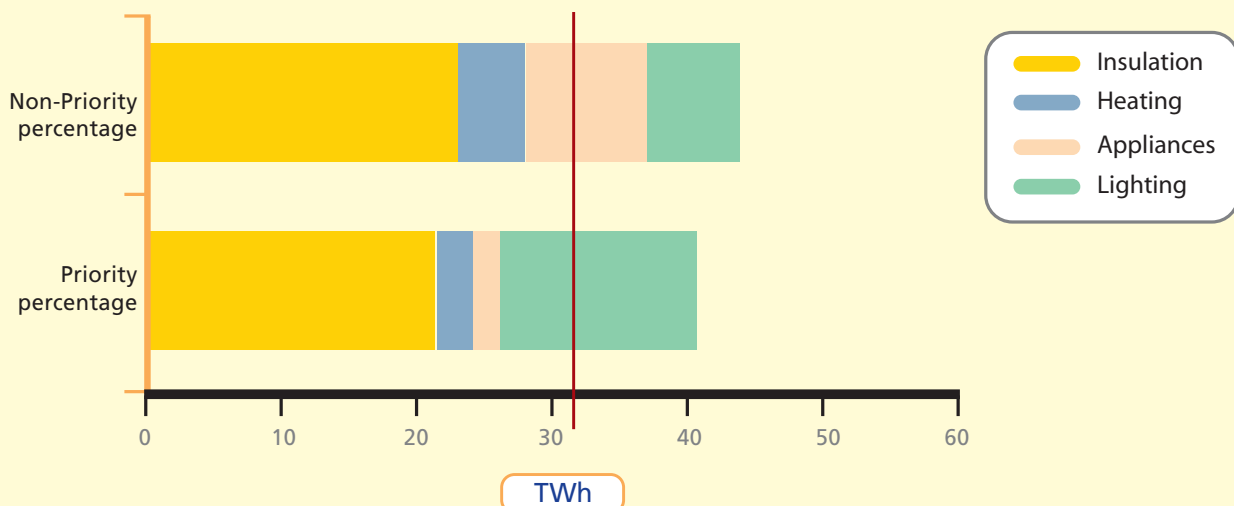
Lighting measures have always accounted for a quarter of the total energy savings. Energy savings from appliances make up less than 15 per cent of the total savings achieved. It is, therefore, interesting to note that appliances contribute more energy savings to non Priority households, than lighting does.

Sales of appliances have predominantly arisen in partnership with retailers. The delivery of appliances was incentivised under EEC 1. However, suppliers will no longer receive an incentive for these measures. Consequently suppliers may have taken the opportunity over the last three months to further transform the

market to maximise the energy savings from wet and cold appliances.

The energy savings from insulation have increased significantly over the last three months. A number of factors could explain this: increasing delivery with a view to carrying over excess energy savings, more accurate data now that monitoring is being completed and the cold snap in February coinciding with the EST's energy efficiency campaign to encourage people to contact their supplier.

Chart 2: Energy savings achieved by measure type for the Priority and non-Priority customers



Priority benefits

The vertical line on **Chart 2** shows the energy savings required for suppliers to meet their EEC 1 targets. The overall target has clearly been exceeded. The suppliers have concentrated their efforts over the last six months to ensure that at least 50 per cent of their targets are achieved in the Priority Group, mainly through providing free CFLs to such consumers.

The trend over the last three years has been for more energy savings to be achieved through non-Priority consumers as these households are easier to locate and target. The gap between Priority Group and non-Priority savings has now narrowed so the latter accounts for 51 per cent of the total savings and Priority consumers have received 49 per cent of the total benefits.

Stay tuned!

Ofgem's report on the final outcome of the EEC 2002 – 2005 will be published by the end of July. This report will provide the complete picture of the suppliers' activity, once all of the monitoring has been completed and any excess measures have been carried over.

If you would like to receive a copy please email eec@ofgem.gov.uk.

EEC 2 - A new beginning

Eight suppliers have been set a target under the EEC 2005-2008. The overall target of 130 TWh has been apportioned to the following utilities, in relation to their number of domestic customers: British Gas, EDF Energy, npower, Opus Energy, Powergen, ScottishPower, Scottish and Southern Energy and Telecom Plus.

Suppliers are required to notify Ofgem of their schemes and have been able to submit details of their proposals since January. The suppliers have started the EEC 2 at a run, by submitting nearly 60 new energy efficiency schemes since January.

Innovative action

Defra has made provision in the EEC 2 legislation for suppliers to be incentivised to deliver innovative measures. The incentive will be a 50 per cent increase in the energy savings from those measures. Conscious that the aim of the EEC is to save carbon, Defra has capped this incentive on innovative measures to 10 per cent of a supplier's target.

Ofgem has interpreted the legislation to define innovative action as:

- any measure, which was not used under the EEC 2002 – 2005
- a means by which an measure is undertaken which was not used under EEC 1, and where the energy savings from it are significantly greater than a similar measure used under EEC 1, or
- a micro co-generation unit with a maximum capacity below 50kWe

Measures are the provision of cavity wall insulation, loft insulation, heating, lighting or appliances for example. The means undertaken is the type of insulation material fitted, the type of heating system installed or the sort of light

fitting used.

For example, as cavity wall insulation has been installed under EEC 1 it would not qualify under (a) above. The most common means for undertaking cavity wall insulation under EEC 1 has been mineral wool insulation.

If a supplier were to install cavity wall insulation under the EEC post-2005 using a different means, ie a different material to that used previously, this could be considered innovative (under (b) above) if the energy savings were significantly greater than that produced by the materials used under EEC 1.

Ofgem has just issued a consultation to seek views on how it quantifies whether an energy saving is 'significantly greater' than that achieved under the EEC 2002 – 2005. It also details all of the measures and means used under EEC 1.

Copies of this document are available at www.ofgem.gov.uk and responses are requested by 30 May 2005. Ofgem plans to finalise its guidance on innovative action, and produce the definitive list of actions delivered under EEC 1, by the end of July.

Energy efficiency team



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We do this by:

- promoting effective competition, wherever appropriate
- regulating only where necessary.

