

Response to the Consultation on Innovative Action in EEC2

British Gas

1. Introduction

- 1.1. British Gas welcomes the opportunity to respond to this consultation.
- 1.2. British Gas recognises that Ofgem has expended considerable effort in preparing the consultation. The result is a comprehensive, thorough and considered document.
- 1.3. We are concerned that a rigid interpretation of the Statutory Instrument may act as a barrier to innovation rather than an incentive and will therefore not meet the Government objective of supporting the development of new energy efficiency technologies. However, we understand that Ofgem has no alternative but to apply a strict legal interpretation of the Order. The opportunity to stimulate markets for new energy efficiency products may therefore be lost.

2. Action and Means

We support the definition of Action and Means in the consultation

- 2.1. British Gas had been concerned in earlier discussion that any new Action may not qualify for the Innovation Incentive. We are pleased that Ofgem has not followed this interpretation and that new Actions could potentially include:-
 - 2.1.1. Heat Pumps
 - 2.1.2. Fuel cells
 - 2.1.3. Brown goods and standby isolation devices
 - 2.1.4. Low temperature washing powder
 - 2.1.5. Double glazing
 - 2.1.6. Lamps other than CFLs (see section 5.5)
- 2.2. We fully support the proposal that where suppliers find a new Means to achieve a previously used Action that a test should be applied to determine that it is a 'significantly greater' improvement in energy efficiency.

3. Micro CHP

We welcome DEFRA and Ofgem's support for Micro CHP through the innovation incentive.

4. Definition of 'Significantly Greater' Improvement

The test for significantly Greater improvements in energy efficiency should be set at a challenging but nonetheless an achievable level. 20% is not achievable within the three year term of the current EEC programme, and will act as a barrier to innovation. We suggest that 10% is stretching but realistic.

- 4.1. After 11 years of energy efficiency development through EESoP and EEC, step changes in improvements become more and more difficult to achieve. Improvements in the early years of energy efficiency included major strides in the development of low energy lamps, energy efficient appliances, condensing boiler technology, etc. We now find that
 - 4.1.1. Appliances – the energy label has been redesigned to accommodate significant improvements that were not originally envisaged
 - 4.1.2. CFLs already reduce energy consumption by 80%
 - 4.1.3. Condensing Boilers – technology is approaching the limit of theoretical achievement
- 4.2. Ofgem have arbitrarily selected a 20% threshold; an improvement that sets such a tough standard that it may either be impossible to achieve or require a level of effort that is not commensurate with the prize.
- 4.3. Suppliers may therefore decide not to innovate and Ofgem's stretching target may act as a barrier to innovation rather than an incentive.
- 4.4. British Gas believes the 20% threshold to be appropriate if it were applied to an emerging market, but the energy efficiency sector is mature. The threshold must therefore be set at a lower, more appropriate level.
- 4.5. We suggest that a level of 10% represents a significant, stretching but possible improvement in energy efficiency. This is supported by Ofgem's comments on solid wall insulation where a 10% improvement is considered appropriate.

5. Consideration of the Types of Action

5.1. Loft Insulation

Ofgem should consider the improvement to be in reducing the thickness of material installed in lofts without compromising the insulation properties. This would encourage insulated loft boarding.

- 5.1.1. Generally we concur with Ofgem's views on loft insulation. However, we believe that if a product could provide the same level of energy saving as conventional loft material, but without the thickness of mineral wool, this should be considered for innovation. The material would demonstrate a significantly greater improvement than an equivalent thickness of mineral wool.
- 5.1.2. Insulation manufacturers are developing loft boarding that in conjunction with 100mm mineral wool fitted between the joists provides the same insulation properties as 170mm loft insulation. The key issue with this type of application is that the final thickness is significantly less than the mineral wool option. We believe this to be innovation.

- 5.1.3. Encouraging this type of innovation would ensure customer propositions that have far greater appeal to consumers than simply filling lofts up with mineral wool. Thinner material would also have the ability to be installed in situations where mineral wool cannot be fitted.

5.2. Cavity Wall Insulation

- 5.2.1. We support the proposals by Ofgem in respect of Cavity Wall insulation. Should the determination of significantly greater be reduced to 10% this may embrace technologies such as UF Foam. If so, the innovation uplift should apply to such products.

5.3. Internal and External Insulation

Ofgem's proposed figure of 0.3 W/m²K is very close to a 10% improvement and underlines our suggestion that 10% would be a more appropriate test for significant improvement across all measures.

- 5.3.1. We understand Ofgem's difficulty in this area as an improvement of 20% on the current U-value for external insulation would result in a value of just 0.12 W/m²K. This level would effectively eliminate the potential for innovation in this area.
- 5.3.2. The suggestion of 0.3 W/m²K is stretching but could result in real improvements in technology. In this case, Ofgem's proposals may encourage innovation. We believe that if other measures were treated in the same way, innovation may flourish under EEC2.

5.4. Tank Jackets

- 5.4.1. We agree with Ofgem views and under no circumstances should innovation be allowed for tank jackets. Suppliers should be encouraged to remove un-insulated tanks rather than to insulate them.

5.5. Lighting

Ofgem should classify CFLs as 'Action' not 'Means'. This will enable other lighting products to be classified as Action and avoid the 'significantly greater' test. Ofgem will therefore be acting to stimulate a market where, so far, EEC has failed to make any material difference.

- 5.5.1. We believe that Ofgem's approach to lighting is a major barrier to market transformation. This is a market that can be transformed to make a major contribution to energy efficiency in Great Britain. However, to date EEC has failed to deliver significant progress as less than 3% of the lighting market through grocery outlets are CFLs.
- 5.5.2. CFLs are just one part of the transformation process as they are only suitable for certain applications in the home. Ofgem points out that setting the Innovation target at 20% improvement on a CFL results in a saving of 94% on a standard lamp. This is clearly impossible within the timescale of EEC2 and probably EEC3 as well.

- 5.5.3. We believe that Ofgem could help to transform this market by taking a more pragmatic line in relation to halogen, dichroic and LED lamps, all of which can deliver significant energy savings in fittings where CFLs cannot be used.
- 5.5.4. In order to stimulate these markets, Ofgem simply needs to classify CFLs as an 'action' not a 'means'. This would enable Halogen, Dichroic and LED lamps to be classified as Action and avoid the 'significantly greater' test. Ofgem could then allow the EST to extend its Approved lighting list to include these new actions and should they gain EST Approval they would also attract the innovation uplift.

5.6. Heating

Solar Water Heating must be treated as a new action rather than a means to provide heating and hot water.

- 5.6.1. Ofgem's proposals have taken heating measures to include measures that provide both heating and hot water. This unfairly penalises measures that improve the efficiency of either heating or hot water.
- 5.6.2. The clearest example is that of Solar Water Heating. This measure saves energy by reducing the energy consumed in preparing domestic hot water. The consumption of energy and the improvement in energy efficiency in relation to space heating is therefore irrelevant.
- 5.6.3. It should be noted that a customer can easily have both the prospective innovation measure (solar water heating) and the measure that Ofgem determines to be the alternative – a condensing boiler. Should suppliers carry over all Solar Water heating projects into EEC2, it is our belief that as the technology only provides hot water not 'heat and hot water', that this is an action that would not have been used in EEC1. The Action would not need to pass the 'significantly greater' test as it would be a new measure.

5.7. Cold Appliances

- 5.7.1. We support Ofgem's view that the innovation incentive should not be applied to the 'Delivery Route element' of appliance programmes. The result of this determination is that the calculation of energy savings for innovative appliance action will be a relatively complex process and we trust that Ofgem will take account of this in the next development of the EEC Spreadsheet.
- 5.7.2. Ofgem proposes that the innovation uplift should apply only to A++ appliances as A+ appliances have been promoted in EEC1. However, we understand that energy suppliers have carried over all action associated with A+ appliances, so we now believe this position to have changed.
- 5.7.3. The final position on EEC1 is that there are no A+ appliances included in the suppliers' schemes – that is no A+ appliances have

been carried out in EEC1. Therefore, as A+ appliances represent a 45% improvement in energy efficiency, all A+ action must be treated as innovation.

- 5.7.4. The innovation incentive should thus apply to both A+ and A++ appliances

5.8. Wet Appliances

- 5.8.1. We are concerned that the proposed threshold for Wet Appliances is a 40% improvement on the current standard. There can be no rational justification for this. We believe that Ofgem should set the innovation threshold at the A+ standard, wherever the A+ standard is set. Separately, we would argue that the A+ threshold should be introduced at a lower level.

6. Next Steps

- 6.1. We await the conclusions of the consultation exercise but in the meantime we would be pleased to discuss any of the above points with Ofgem should further clarification be required.