

EEEC UPDATE

Issue 15/Feb 2006



The EEC team at BRE - In the test house from left to right: Peter Iles (BRE) and the EEC team: Kate Smith, Sue Corbett, Fiona Kenyon, Charles Hargreaves, Urszula Kulpinska and Hanish Yadav

Under the EEC 2005 –2008:

- **Suppliers have achieved 62TWh energy savings (27 TWh without the carryover); almost half of the EEC 2005 –2008 target**
- **Insulation measures remain the most popular measure group for achieving the target**
- **Activity in the non-Priority Group has outperformed the Priority Group by 4TWh**

The Energy Efficiency Commitment 2005-2008 (EEC2)

The EEC 2005-2008 sets targets on energy suppliers to achieve improvements in energy efficiency by providing energy efficiency measures to households across Great Britain.

The EEC 2005-2008 is primarily a carbon saving programme and, as such, is part of the Government's Climate Change Programme. To ensure low income consumers who pay a larger proportion of their income into the scheme get a larger share of the benefits, at least half of the energy savings must be targeted at the 'Priority Group' – households in receipt of 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 measures.

These measures can also be promoted and delivered with a range of project partners such as social housing providers, charities, retailers and manufacturers. Suppliers can help

any domestic customer in Great Britain, whether their home is heated by gas, electricity, coal, oil or LPG.

The first phase of the EEC (EEC1) ran from 2002 to 2005. Ofgem's review of this programme is available on our website at www.ofgem.gov.uk

The energy saving target for the EEC 2005-2008 (EEC2) was set by Defra at the end of 2004. The target is 130 TWh, roughly double the target set for EEC1. 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 has achieved and is forecast to deliver. This date is used to compile the EEC Update.

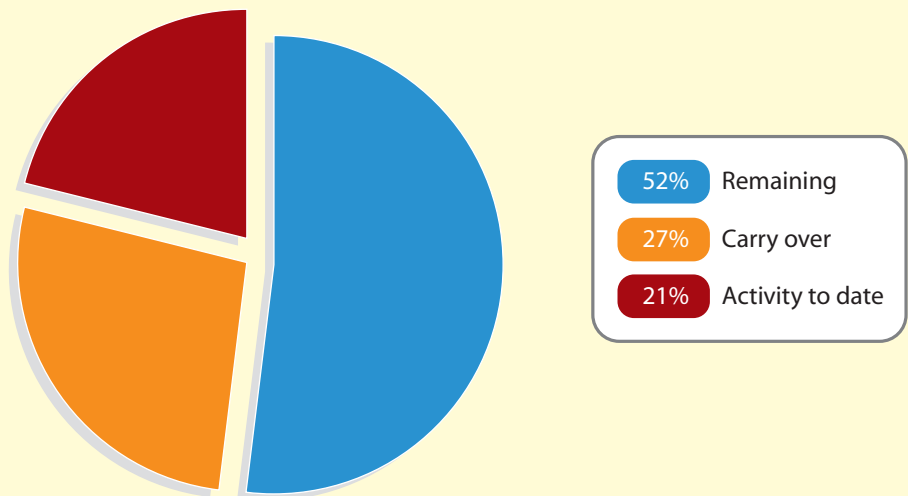
Suppliers' achievements so far

Reporting

The EEC 200-2008 officially started on 1 April 2005, but suppliers were able to set up new energy efficiency projects from January 2005, after Ofgem had set each of their targets. The eight obligated suppliers have now been set a revised energy saving target based on their customer numbers as at 31 December 2005. Suppliers meet their targets by setting up schemes to deliver energy efficiency measures from the four measure types.

Each supplier is required to send their scheme proposals to Ofgem, to be approved in accordance with the EEC legislation. So far, over one hundred schemes have been sent to Ofgem. The information in this update details the estimated achieved savings for the approved schemes.

Chart 1: Proportion of target met and still to be achieved in EEC 2005-2008

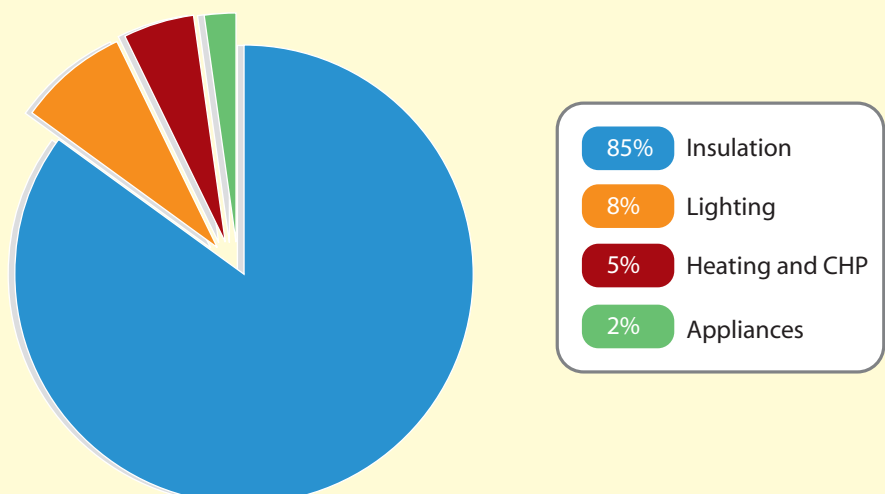


Progress

In the first three quarters of the EEC 2005-2008, suppliers have delivered sufficient measures to achieve 27 TWh, equating to just over a fifth of the target. With the inclusion of the 35 TWh carryover of savings from EEC 2002-2005, the suppliers have almost met half of their combined target. After three quarters, the suppliers are

on average achieving 9 TWh of energy savings per quarter. With 52 per cent of the total target remaining to be achieved by 31 March 2008, the indicative average rate of energy savings to be achieved by the obligated suppliers is 7.6 TWh per quarter.

Chart 2: The proportion of energy savings achieved by measure type in the first three quarters



Measures delivered

Chart two and **chart three** are based on the actual energy savings achieved by the suppliers during the first three quarters of the EEC 2005-2008 (these charts do not include carryover activity).

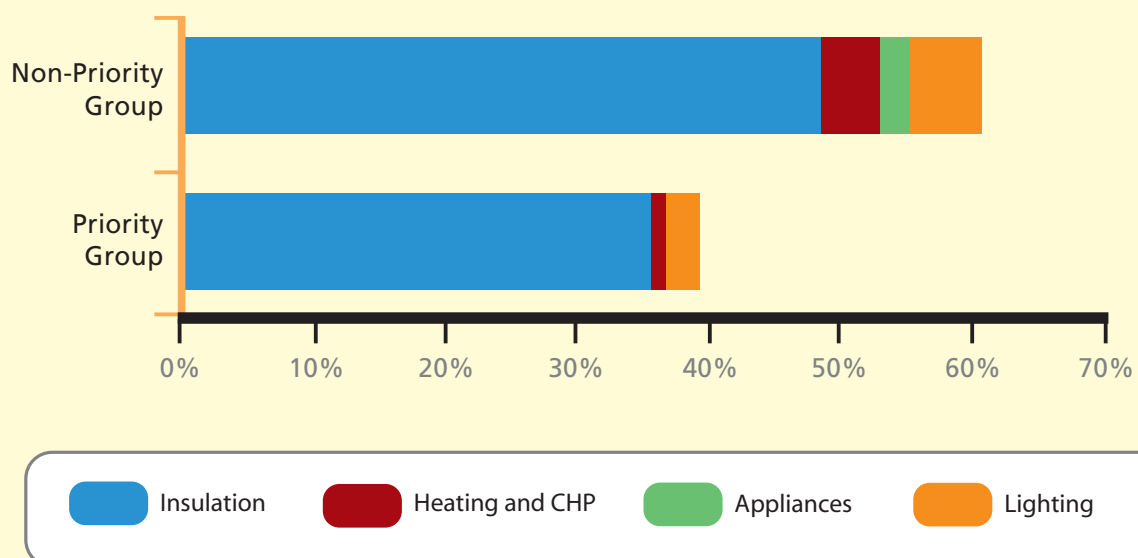
The measure type split is dominated by loft and cavity wall insulation. Both lighting and heating measures delivered to non-Priority customers are increasing their share as suppliers expand the mix of measures. The suppliers have commenced a number of retail relationships within the EEC 2005-2008. This is demonstrated by the proportion of non-Priority savings achieved through appliances and lighting.

As can be seen in **chart three**, the suppliers' EEC2 activity has achieved more savings with measures delivered to non-Priority Group customers: only 39 per cent of the savings in the first three quarters have been achieved in the Priority Group (this excludes the energy savings carried over). The obligated suppliers must achieve at least 50 per cent of energy savings in the Priority Group to meet the combined target. When the savings carried over from EEC 2002-2005 are included with the achievement so far, the split between the customer types is 47 per cent Priority Group and 53 per cent other customers.

While the carryover moderates the imbalance between the Priority and non Priority Group activity, suppliers will need to redress this trend if they are to comply with their targets. Over the coming quarters, they will need to increase activity focussed on consumers in the Priority Group to ensure that at least 65 TWh of energy savings are achieved in relation to Priority Group consumers.

The suppliers currently direct insulation activity towards Priority Group consumers through partnerships with local authorities and housing associations. Additionally, a number of schemes have commenced that interact with Warm Front and the devolved equivalents so that suppliers provide funding for insulation measures above the value used for the heating measure. Given that this activity has led to the current imbalance and the fact that there is little scope to increase the level of activity in these areas, it may be necessary for suppliers to focus more activity towards Priority Group consumers in the owner occupier market.

Chart 3: The proportion of energy savings achieved split by measure and customer type in the first three quarters



Energy Services Directive

The Directive of the European Council and of the Council on energy end-use efficiency and energy services was agreed at the end of 2005.

It covers the household, transport, commercial, small industry and agriculture sectors - those sectors that are not covered by the EU Emissions Trading Scheme. The Directive is aimed at removing market barriers and imperfections for end use energy efficiency. It also aims to set up a market for energy services. The UK, under its Presidency, secured a compromise deal with the Parliament and member states.

Some of the key issues are:

- The scale of the target: each member state shall adopt an indicative energy saving target of 9 per cent over 9 years,
- Member states need to ensure that energy suppliers or distributors are promoting energy services, energy audits or other energy efficiency improvement measures to consumers.
- Energy suppliers should provide actual time of use meters where technically feasible and cost effective and where appropriate provide informative billing.
- Each member state will be required to submit an Energy Efficiency Action plan to the Commission.

Domestic metering innovation

On 1 February, Ofgem launched a new consultation on domestic metering innovation. This initiative was aimed at unlocking the potential for smart meters for all gas and electricity consumers.

Smart metering can offer benefits to consumers in a number of different ways. However, the most direct way is that it can give customers information in a way that is easy to understand. Modern meters can display energy consumption in pounds and pence so customers can see at-a-glance how much they are using. This can help encourage customers to use energy more efficiently.

Billing accuracy can also be improved by smart meters, as they eliminate meter reading and send accurate readings direct to suppliers, in that way ending the need for estimated bills. Such newer, more reliable prepayment meters could also lead to cheaper costs for those customers who use these meters. This would particularly benefit the fuel poor.

Smart meters could help support micro-generation by metering the amount of energy a household might sell back to the electricity network. Micro generation and encouraging energy efficiency can thus make a real contribution to reducing greenhouse gases.

Given this potential to revolutionise the way energy is used in the home, Ofgem is seeking, in partnership with the industry and consumer organisations, to establish a clear picture of the costs and benefits of smart meters and to help develop its strategy over the next six months for increasing their use.

The deadline for responses is 15 February 2006.

Energy efficiency team



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Everything Ofgem does is designed to protect and advance the interests of consumers present and future.

We do this by:

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

