

EEEC UPDATE

Issue 4 May 2003

One year into the EEC:

- **Suppliers have met just under 30 percent of the three-year target**
- **60 percent of the work to date has been in insulation measures**



Members of the EEC Suppliers Working Group

We are now one year into the three-year Energy Efficiency Commitment (EEC).

The EEC places an obligation on suppliers to achieve energy efficiency improvements in households across Great Britain. The programme has been set up to recognise the contribution energy efficiency can make to reducing carbon emissions from households.

There are also social benefits to be made in terms of cost savings and increased comfort for low-income consumers. Suppliers are required to target more than half of the energy savings at the 'priority group' - households that receive income related benefits or tax credits.

There are nine suppliers with an EEC target and their contact details can be found at <http://www.ofgem.gov.uk>

Suppliers meet their targets by setting up schemes to promote energy efficiency measures. They have the flexibility to choose which types of measures to offer to consumers.

The main types of measure are insulation, lighting, heating and appliances. **Over the last year Ofgem has assessed just under 100 EEC schemes.** Each supplier has employed a range of mechanisms for marketing and delivering their schemes, such as promoting energy efficiency directly to their customers.

However, as suppliers can provide energy efficiency measures to any domestic consumer in Great Britain, many are forming partnerships with

third parties. Developing schemes with social housing providers enables suppliers to target the priority group and lever additional funding. Many suppliers are also partnering with retailers to promote energy efficient appliances and lighting as well as DIY loft insulation.

Ofgem's role is to oversee suppliers' work by approving each energy efficiency scheme they set up. Suppliers provide quarterly reports to enable Ofgem to monitor the delivery of their schemes. The fourth set of these reports was used to compile this report.

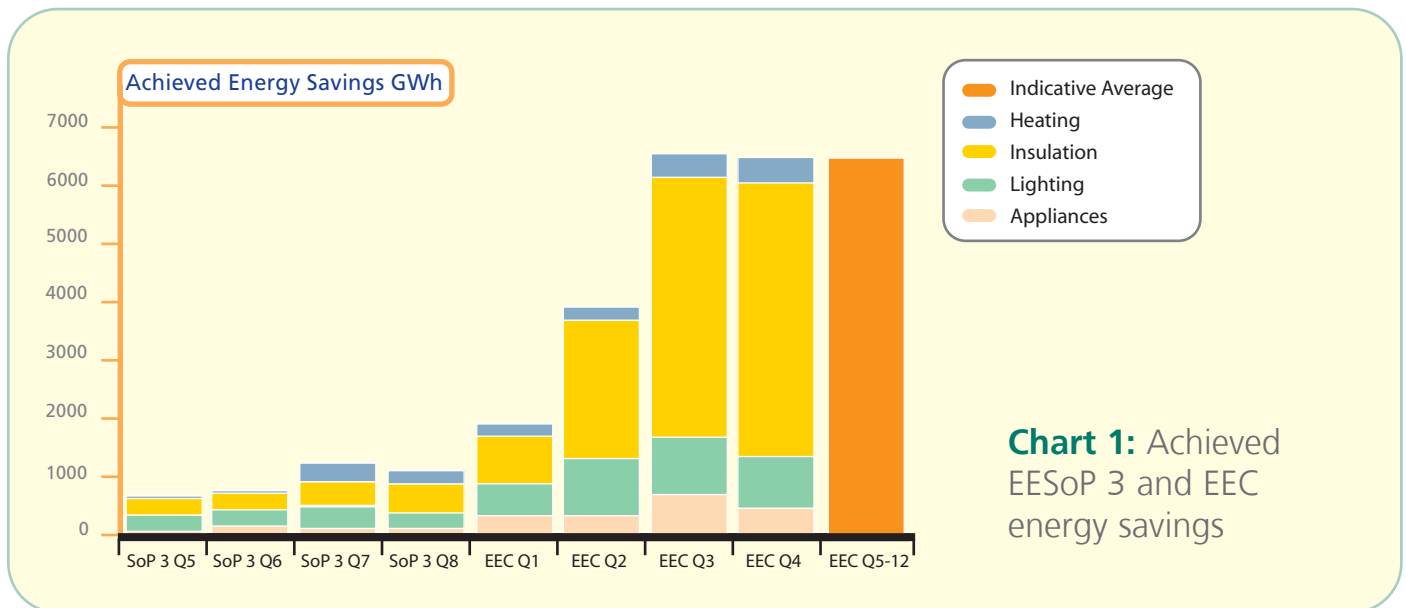


Chart 1: Achieved EESoP 3 and EEC energy savings

Progress to date

The EEC has delivered over 17,000 GWh of energy savings during its first year, equating to just under 30 percent of the overall target. **Chart 1** shows the increase in the number of energy efficiency measures which suppliers have installed over the last two years, ie the last year of the Energy Efficiency Standards of Performance 3 and the first year of the EEC.

It illustrates how suppliers have had to increase the scale of their delivery to reflect new EEC targets. The final column provides a comparison to the average installation rate required from quarter 5 to 12. This shows that suppliers will need to deliver just over 5TWh each remaining quarter in order to meet the target of 62TWh. It is important to remember that this is an indicative delivery rate and is not a target on suppliers. **Chart 1** shows that suppliers were able to maintain this delivery rate in quarter 3 and 4 of the EEC.

The suppliers' quarterly reports also show that 45 percent of delivered energy savings have been achieved in priority group

households. The target is for at least 50 percent of the overall energy savings to be met within this group.

We can see from **Chart 1** that insulation work dominates the programme. Overall, suppliers are looking to achieve roughly 40 percent of their energy efficiency savings through joint initiatives with social housing providers and this work will focus on insulation provided to the priority group. The current shortfall in meeting the priority group target can be attributed to the time taken for suppliers to set up such partnerships with social housing providers.

Last year Ofgem produced a factsheet for Local Authorities and Housing Associations providing guidance on how they might benefit from the EEC.

This is available on Ofgem's website

www.ofgem.gov.uk/ofgem/work/index.jsp?section=energyefficiency

Measures delivered

Chart 2 looks more closely at the types of measures delivered each quarter over the first year of the programme. Insulation work has continued to dominate and accounted for over 65 percent of the energy savings achieved over the last quarter.

The contribution from lighting has decreased over the year. In quarter one it accounted for 30 percent of the measures installed. This may be because schemes to promote the sale of CFLs (Compact fluorescent lamps) are easier to set up compared with insulation or heating and enabled suppliers to make good progress towards their targets in the initial months.

Heating and appliance schemes, despite involving large numbers of measures, continue to make up only a small proportion of the total delivered energy savings because of the relatively low energy savings available per appliance.

Chart 2 begins to demonstrate the effect of seasonality on the supplier's schemes. CFLs accounted for a higher proportion of energy savings in the summer months whereas over the winter months, October to March, insulation dominated. It will be interesting to see if this becomes a cyclical trend.

The percentage of savings achieved through heating measures also increased markedly over this period. Sales of appliances were at their highest in quarter 3, achieving double the energy savings delivered in each of the previous two quarters. **Chart 3** shows a more detailed breakdown of the types of measures approved by Ofgem.

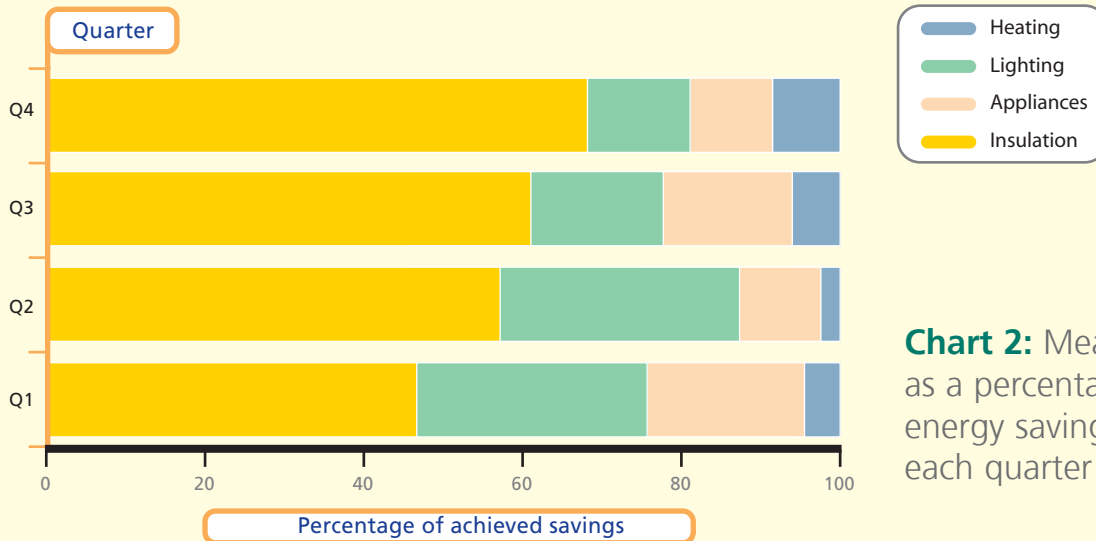


Chart 2: Measures installed as a percentage of the total energy savings achieved each quarter

Energy Services

Defra have put in place an incentive for suppliers to undertake energy service schemes under the EEC. To qualify for this incentive, energy service packages must:

- include two measures, one of which is insulation to the loft or the walls, a boiler or CHP
- undertake an assessment of the premises
- provide relevant advice to the consumer, and
- offer domestic consumers the option of deferring payments for the measures.

If these criteria are met, the scheme will be accredited with an additional 50 percent of energy savings. The energy savings eligible for uplift cannot make up more than 10 percent of a supplier's overall target.

Of the six major suppliers with an EEC target four have set up energy service packages. It is estimated, if take up is as forecast,

from looking at the current scheme submissions, that between 130,000 and 170,000 households will benefit from taking up an energy service package.

These households are predominantly in the non-priority group. The main measure being offered is cavity wall insulation with some homes receiving loft insulation. The second measure purchased by the household is generally 6 CFLs, although some suppliers are offering hot water tank jackets, draught proofing and loft insulation top-up.

Once suppliers have delivered energy service packages to an equivalent of 10 percent of their target, any further savings will not qualify for an uplift. It is too early to assess whether suppliers will continue to offer these packages once they have reached this threshold; although is considered likely because it is cost effective for suppliers with the consumer generally paying the full cost of the measure over time.

Chart 3: The range of measures approved by Ofgem

Lighting	<ul style="list-style-type: none"> energy efficiency lightbulbs (stick CFLs and decorative bulbs) luminaires (dedicated CFL fittings)
Insulation	<ul style="list-style-type: none"> cavity wall insulation loft insulation solid wall insulation draught-proofing hot water tank insulation radiator panels
Heating	<ul style="list-style-type: none"> condensing gas boilers boilers with heating controls solar water heating ground source heat pumps combined heat and power
Appliances	<ul style="list-style-type: none"> cold appliances (fridges and freezers) wet appliances (dishwashers and washing machines) kettles

The Energy White paper

The Government's White Paper Our Energy Future - creating a low carbon economy, recognised the importance of energy efficiency in delivering its climate change targets and that the EEC in particular has a major role to play in curbing emissions from households. It acknowledged that those suppliers with an EEC target have responded positively and are working hard to meet their targets.

The Government plans to consult on expanding the EEC to run from 2005, possibly at twice the current level of activity. The timescale for this has yet to be determined but is expected to run until at least 2008 to enable suppliers sufficient time to plan their activity. The current programme is set to achieve carbon savings of 0.4 MtC,

equivalent to around a 1 percent reduction in carbon emissions from domestic sources, each year. The White Paper sets out a range of measures which have the potential to deliver carbon savings of 3.5 MtC by 2010. These measures include higher standards for boilers under the Building Regulations and improvements to standards for household appliances. The EEC post 2005 is also expected to make a significant contribution. The Government will also consider the expansion of the EEC to include non-domestic consumers.

The White Paper makes the commitment to set up a working party with Ofgem and the suppliers to explore how to create an effective market for energy services. This work is in its initial stages.

Reporting on the EEC

The energy suppliers are required to publish an annual report on their progress against their EEC target over the first year of the programme.

These reports will be available at the end of June and will be available, on request, to any interested party.

Ofgem is required to report to the Secretary of State at the end of July and will in turn publish a report detailing the first year of the programme.

The public report will be available on Ofgem's website: www.ofgem.gov.uk

Energy efficiency team



Contact details

Charles Hargreaves	Head of Energy Efficiency	Tel 020 7901 7459	Email charles.hargreaves@ofgem.gov.uk
Kate Smith	Deputy Head of Energy Efficiency	Tel 020 7901 7488	Email katharine.smith@ofgem.gov.uk
Emma Chetwynd	Energy Efficiency Manager	Tel 020 7901 7476	Email emma.chetwynd@ofgem.gov.uk
Susan Pelmore	Energy Efficiency Officer	Tel 020 7901 7094	Email susan.pelmore@ofgem.gov.uk

A list of suppliers with an EEC target can be viewed at www.ofgem.gov.uk

If you would like to be added to, or removed from the circulation list for this EEC quarterly update, please email Susan Pelmore.

Ofgem is the Office of Gas and Electricity Markets, regulating the gas and electricity industries in Great Britain.

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

