

EEEC UPDATE

Issue 8 May 2004

Energy Efficiency Commitment Key Facts

- **Suppliers have now been delivering energy efficiency programmes for ten years**
- **Defra has announced that it will consult on extending the EEC at roughly twice the current level until 2011**



The Energy Efficiency team. From left to right: Obi Isiekwe-Olanipekun, Emma Chetwynd, Fiona Kenyon, Charles Hargreaves and Kate Smith

Under the EEC 2002-2003:

The last three months have seen the most supplier activity

Suppliers have delivered over 47 TWh of energy savings

Further targeting of the Priority Group is essential over the next year

The EEC (2002 -2005) requires energy suppliers to save 62TWh of energy by providing energy efficiency measures to households across Great Britain.

To recognise the benefits energy efficiency brings to low income customers, 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.

Suppliers have flexibility in the types of energy efficiency measures that they provide to customers, such as insulation, lighting, appliances and heating measures.

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

The suppliers' EEC activity in the quarter January to March 2004 was the highest yet and will produce an energy saving of over 10 TWh.

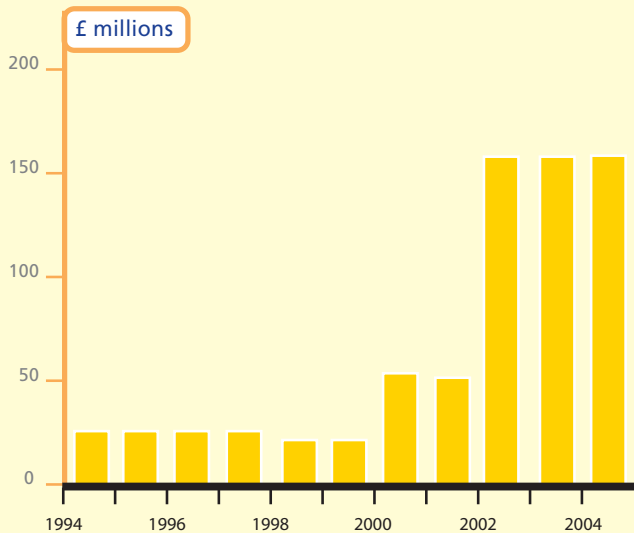
Suppliers have now achieved more than 75 per cent of the total energy saving target. Activity to date has been dominated by the provision of insulation to households. Suppliers are required to meet their energy saving target by 31 March 2005.

10 years of energy efficiency programmes, and the good work will continue....

April saw the ten year anniversary of suppliers delivering energy efficiency programmes. The Energy Efficiency Standards of Performance (EESoP) began in 1994 with the then electricity regulator, Offer, setting targets on suppliers to achieve energy savings in consumers' households. Further targets were set on suppliers in 1998 ('EESoP 2') and by Ofgem in 2000 ('EESoP 3') on both gas and electricity suppliers.

The targets have been met by delivering a range of energy efficiency measures including insulation, lighting, heating and appliances. Insulation has remained the most common measure delivered by suppliers, as it provides the greatest benefit in terms of saving customers money off their fuel bills as well as improving their comfort. Throughout the programmes, suppliers have been required to target a proportion of the benefits to disadvantaged or low-income consumers.

Chart 1: Supplier expenditure each year of the EESoPs and the EEC



Building on the success of the EESoP programmes, the Energy Efficiency Commitment (EEC) was introduced by Defra in 2002. The EEC target is over three times the size of those imposed under EESoP 3 and the results are expected to reduce carbon emissions from households by 1 per cent.

As the methodology used to set the targets and accredit suppliers' schemes has evolved throughout each programme, it is therefore difficult to compare the energy savings achieved. **Chart 1** shows how the suppliers' expenditure has increased each year (NB: for EESoP 3 and the EEC (2000 - 2005) the costs are indicative). By the end of the current EEC in April 2005, suppliers will have spent around £750 million on energy efficiency measures for consumers across Great Britain.

However, the acceleration in supplier activity won't stop there. As set out in 'Energy Efficiency - the Government's Plan for Action' which was published in April, Defra are proposing to extend the EEC for the next six years to March 2011 at a level roughly double that of the present EEC.

Defra intends to consult on its proposals for the EEC post 2005 this month. The consultation proposals will set out a firm target for the period 2005 - 2008. Assuming that the EEC can still demonstrate cost effective carbon savings, the Government has indicated that a further consultation exercise would take place in 2007 to set targets for improvements in household energy efficiency up until 2011.

Shedding light on suppliers' progress

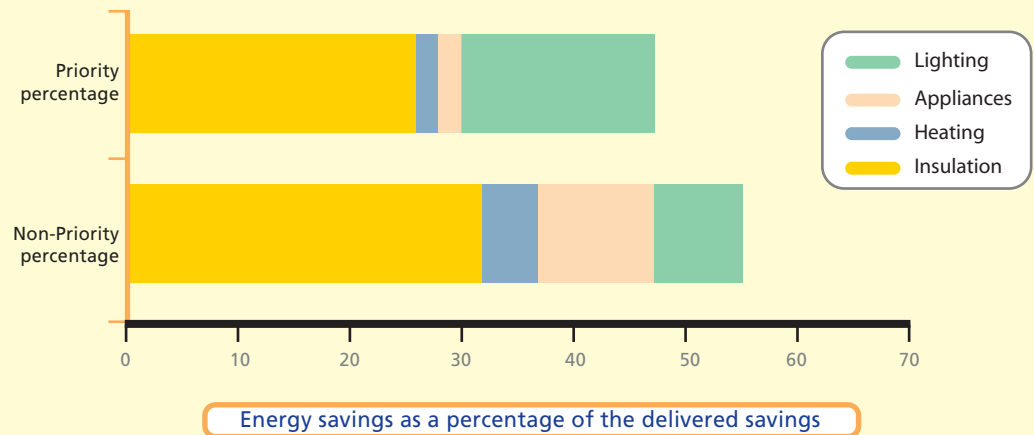
Suppliers have less than a year to demonstrate compliance with their EEC target by completing the delivery of measures and reporting to Ofgem.

January - March 2004 has produced the highest level of supplier activity - and energy savings - across the EEC programme so far. This has resulted in suppliers delivering measures that will result in an energy saving of over 10 TWh. The February 2004 EEC Update illustrated that there had been a rise in the energy savings from heating measures between October - December 2003 and speculated whether this would continue across the second half of the winter heating season.

The energy savings from heating (and appliances) as a percentage of the total energy savings has in fact decreased while the contribution from lighting has tripled over the last quarter. Energy savings from lightbulbs distributed to the Priority Group account for almost three times the energy savings from CFLs (Compact Fluorescent Lamps) distributed to non-Priority households (as shown in **Chart 2**) suggesting that the distribution of free lamps to the Priority Group is a major delivery route for the suppliers.

One factor of this, however, is that the energy savings for CFLs installed in Priority households attain a higher energy saving because of a higher annual consumption pattern.

Chart 2: Energy efficiency measures for the Priority and non-Priority Groups, as a percentage of the overall delivered energy savings



Focus on the Priority Group

Suppliers are required to target at least 50 per cent of their energy savings at the Priority Group - those households in receipt of certain income related benefits and tax credits.

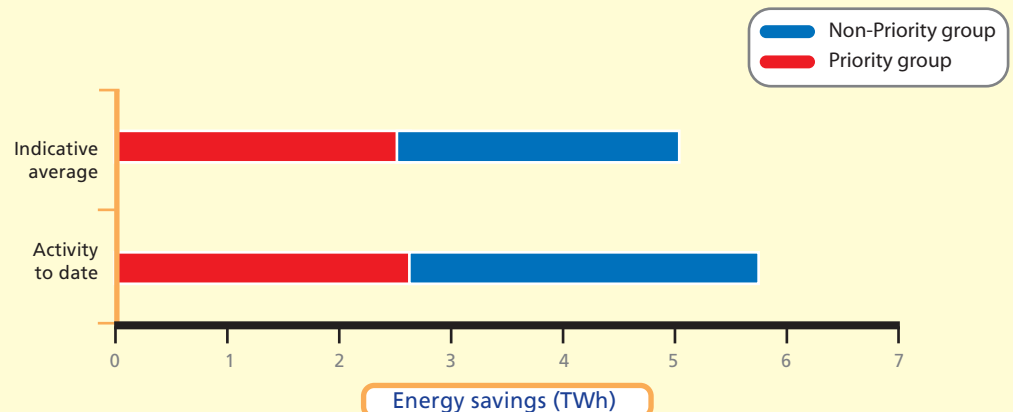
As shown in **Chart 2**, and identified in the last EEC Update, suppliers are still achieving around 45 per cent of their energy savings within the Priority Group. In order to comply with the overall target, suppliers will have to concentrate on their Priority Group schemes over the coming months.

It is worth noting that suppliers are ahead of the overall average expected delivery rate but that the over-delivery is within the non-Priority Group. In order to meet the overall, target suppliers need to deliver on average over 5 TWh of energy savings each quarter for the three years.

Split out to each customer group, suppliers need to deliver on average just over 2.5 TWh each quarter over 3 years in both the Priority Group and the non-Priority households.

This is illustrated in **Chart 3** which shows the indicative and actual average energy savings the suppliers have delivered to date. If suppliers continue to achieve these actual average delivery rates of energy efficiency they should just meet the required level of Priority Group energy savings while over-achieving on delivery to other households.

Chart 3: Indicative average and actual average energy savings per quarter for Priority Group and non Priority Group customers



The delivery of measures to the Priority Group has generally been via cost effective partnerships with social housing providers to deliver insulation measures in bulk. The recent increase in the provision of energy efficient lighting to Priority Group households reflects an imbalance in activity and shows that suppliers may not be setting up any new social housing provider partnerships under the current EEC.

If this is true, then the current trend for CFLs, as highlighted above, may continue over the next 10 months. CFLs are cost effective and are being delivered through a number of well-established routes. One key point to note is that when delivering CFLs to Priority Group consumers, suppliers are limited to delivering no more than four per household. Fitting four CFLs can save a household around £24 per year¹.

¹Based on a 20 watt CFL replacing a 100 watt GLS light used for 1,250 hours per year and a price of electricity at 6p/KWh

Carbon flash!

In the target-setting model for the EEC, Defra estimated that the programme would cut greenhouse gas emissions by around 0.41 million tonnes of carbon (MtC) a year by 2005. Current estimates from suppliers' EEC proposals and quarterly returns indicate that the current EEC will save very roughly 0.47 MtC a year by 2005.

'Energy Efficiency - the Government's Plan for Action' proposes that extending the EEC post-2005, at broadly double the current level of activity, would deliver a carbon saving of around 0.7 MtC a year, although this estimate is based on a slightly different methodology.

The Energy Efficiency Commitment post-2005

As highlighted within 'Energy Efficiency - the Government's Plan for Action' (available on the Defra website), Defra plans to consult later this month on its proposals for the EEC from 2005 - 2008.

This consultation will set out the proposed targets and policy framework. Ofgem will follow this document by

consulting on the administration procedures for the EEC 2005 - 2008 and plans to publish its proposals in June.

If you wish to be added to the mailing list for Ofgem's consultation please email eec@ofgem.gov.uk

Contacting the suppliers

A list of all suppliers with an EEC target and their contact details are available on Ofgem's website:

www.ofgem.gov.uk

Energy efficiency team



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- regulating only where necessary.

