

Energy Efficiency Commitment 2005-2008

Summary of Responses to Ofgem's consultation on Innovative Action

November 2005

Summary

Ofgem's consultation on the incentive for Innovative Action in the Energy Efficiency Commitment 2005-2008 was published in April 2005. This consultation followed on from the Electricity and Gas (Energy Efficiency Obligations) Order 2004 which came into force in December 2004. This document provides a summary of responses to that consultation.

Sixteen organisations responded to Ofgem's consultation. Some suppliers expressed some concern over the levels proposed for the significantly-greater test. Other respondents suggested that a simple test of whether a product achieved a significantly greater improvement in energy efficiency was not the best mechanism to determine whether a product was truly innovative. However, in general respondents were supportive of the structure Ofgem had proposed for determining whether measures employed by the suppliers in their schemes could be considered innovative. The responses to Ofgem's consultation have been published on Ofgem's website: www.ofgem.gov.uk.

Following this consultation process Ofgem's decisions on determining whether a product can be classed as innovative action has been published, and is available on its website.

Table of contents

1. Summary of responses	1
The incentive for Innovative Action	1
The threshold used to demonstrate a significantly greater improvement in energy efficiency	1
Comments on measures that were not included in the consultation document.....	2
Other energy efficient products	3
Comments on the measures included in the consultation document	3
Comments made that do not relate to the Innovative Action Consultation.....	8
Appendix 1 List of organisations responding to the consultation document.....	11

1. Summary of responses

The incentive for Innovative Action

- 1.1. Across most of the respondents there was a broad level of support for the introduction of an incentive for Innovative Action. Many respondents suggested that the incentive for innovative measures would help bring more efficient products to the market. There was also support for the methodology Ofgem had proposed for determining whether a qualifying action was innovative action.

The threshold used to demonstrate a significantly greater improvement in energy efficiency

- 1.2. The suppliers thought that the proposed threshold of 20% to demonstrate a significantly greater improvement in energy efficiency was too high, and some commented that it should be moderated to around 10%. One supplier reinforced this view by stating that the measures the suppliers had been promoting in their energy efficiency schemes were mature and achieving a 20% improvement would be difficult. One supplier commented that Ofgem had stated in the document that it would consider the significantly greater test on a case-by-case basis, but then had suggested that for most of the measures listed in the document a 20% threshold was appropriate.
- 1.3. Ofgem comment: In the consultation document Ofgem commented that as a general guideline in most cases an energy saving of 20% more than those achieved by similar action determined as qualifying action under the EEC 2002-2005 represented a significantly greater improvement in energy efficiency. However there were differences between the measures and in drawing up the decisions on Innovative Action Ofgem has been willing to consider the evidence submitted to suggest a change to the thresholds proposed in the consultation document.
- 1.4. Of the other respondents, there was some support for the thresholds that had been proposed. One respondent suggested that the improved cost effectiveness of a measure should be the criterion for determining whether a measure is innovative. This respondent also suggested that it would be appropriate to vary

the support for innovative measures based on the cost effectiveness of the measure.

- 1.5. Ofgem comment: With respect to the cost effectiveness point, Ofgem has to administer the EEC 2005-2008 in accordance to the Electricity and Gas (Energy Efficiency Obligations) Order 2004. This does not specify cost effectiveness as a qualifying criterion for Innovative Action; it can therefore not be considered.

Comments on measures that were not included in the consultation document

- 1.6. A number of the respondents provided comments on measures that they considered should be eligible for the incentive for Innovative Action. They considered that because these measures were not listed in the consultation document that they would not be considered qualifying action or innovative action.
- 1.7. Ofgem comment: The definition of Innovative Action in the Order requires Ofgem to be satisfied that any similar action (to that determined as qualifying action under the article 8(1)a of the Electricity and Gas (Energy Efficiency Obligations) Order 2001) leads to a significantly greater improvement in energy efficiency. The consultation document therefore listed those actions Ofgem considered likely to be determined as qualifying actions under the 2001 Order. It did not exclude any new actions from being a qualifying or an innovative action.

Micro CHP

- 1.8. A number of respondents endorsed the support for mCHP. However, one respondent suggested that the support was not justified as this technology is, as yet, unproven and might be inferior to other technologies that are already on the market.
- 1.9. Another respondent commented that it would like clarification on how mCHP would be accredited. It considered that it would be appropriate to accredit mCHP on the basis of the information that is already available and that perhaps

it was not necessary to wait for the field trials and the work on the standard test procedure to be completed.

- 1.10. Ofgem comment: Micro CHP is specifically defined as Innovative Action in the Order and therefore Ofgem does not have any discretion on whether any energy saving it achieves is incentivised. Ofgem does not agree that micro CHP should be accredited before the trials and the standard test procedure are complete. It is only then that we will be in a position to determine the energy saving from these products.

Other energy efficient products

- 1.11. Ofgem received comments on a number of other energy efficiency products and was asked for a view on whether these could be considered innovative. Such products included membranes, brown goods, glazing and tumble dryers.
- 1.12. Ofgem comment: None of these products were accredited as qualifying action under the EEC 2002-2005 and, as such, if they can demonstrate an improvement in energy efficiency under the EEC 2005-2008 could be considered innovative action. However, before these products can be accredited as a qualifying action, and consequently innovative action, suppliers wishing to employ them in their schemes will have to demonstrate that they will lead to a verifiable improvement in energy efficiency.

Comments on the measures included in the consultation document

- 1.13. Comments were received on most of the measures listed in Ofgem's consultation document; if the measure is not given below it is because Ofgem received no comments from respondents or the respondents were in general agreement with what was proposed. In general the suppliers commented that measures should not be discounted at any stage as potentially future innovations might mean that measures could become eligible in the future. Comments from other respondents did not tend to focus on the detail provided on the different measures.

Loft insulation

- 1.14. Many of the suppliers commented that loft insulation should not be discounted from the list of measures that might be considered innovative in future. One supplier suggested that a new form of loft insulation that achieved the same thermal characteristics as that accredited in the EEC 2002-2005 with a lower thickness should be classed as innovative action.
- 1.15. Ofgem comment: In the consultation document Ofgem noted that we consider it very unlikely that it will be possible to demonstrate a significantly greater improvement in energy efficiency with respect to loft insulation. However, we do not discount the possibility entirely and we would be willing to consider any new products. Ofgem notes that any similar action is required to lead to a significantly greater improvement in energy efficiency. As such any loft insulation product with the same thermal characteristic as that used in qualifying action under the EEC 2001 Order cannot be considered as Innovative Action.

Cavity wall insulation

- 1.16. Most of the suppliers commented that achieving a 20% improvement in energy efficiency for cavity wall insulation would be very difficult and that the threshold should be lower. One respondent commented that it was not clear how the lambda of 0.023 W/mK had been achieved and asked for clarification. However, another respondent commented that it considered the threshold proposed to be at the right level as it had heard of a product that was under development that already had a similar thermal characteristic.
- 1.17. Ofgem comment: The lambda of 0.023 W/mK has been derived from the comparison of the thermal characteristics of an unfilled cavity wall and a cavity wall filled with insulation used in the EEC 2002-2005. Installing cavity wall insulation with a lambda of 0.023 W/mK will ensure that a 20% improvement in energy efficiency is achieved above the savings achieved by standard cavity wall insulation. Given that there are products under development that will achieve this level of thermal performance Ofgem does not consider it appropriate to soften the requirement to demonstrate Innovative Action for cavity wall insulation materials.

- 1.18. One supplier also requested clarification on how a product would be treated if it could demonstrate a perfect fill of the wall cavity.
- 1.19. Ofgem comment: Ofgem will consider evidence of the improved fill performance of a new cavity wall insulation material on a case-by-case basis.

Internal/external wall insulation

- 1.20. There was general support for the threshold proposed, even though the stringency, in percentage terms, is less than that proposed for other measures. One respondent noted that if the 20% threshold was applied in this case that it would be very unlikely that anyone would be able to claim the incentive for innovative action with respect to internal/external wall insulation. One supplier requested clarification on whether installing a thicker level of insulation would be eligible for the innovative action incentive. Another respondent questioned whether new products that reduced the conduction of heat would be accredited.
- 1.21. Ofgem comment: The threshold suggested in the consultation document led to an absolute energy saving of a similar magnitude as that proposed for cavity wall insulation. A thicker level of insulation of the same type of material used in the EEC 2002-2005, cannot be classed as innovative action and conduction issues are already considered. Ofgem notes that during the completion process for the EEC 2002-2005 it became apparent that some solid wall properties had been insulated to a higher standard than that suggested in the consultation document. Consequently, the threshold to demonstrate a significantly greater improvement in energy efficiency has had to be made more stringent for the decisions document.

Draught proofing

- 1.22. There was little comment on draught proofing. One respondent commented that there was a large potential for draught proofing work, particularly in new houses.
- 1.23. Ofgem comment: Only the draught proofing work that is additional to the Building Regulations can be considered under the EEC.

Lighting

- 1.24. There was general concern about the proposed threshold for lighting measures. Some respondents commented that it was not appropriate to consider all lighting measures in one category and others commented that the 20% threshold in this case was too difficult to achieve. Respondents commented that there is not a market in the domestic sector for LEDs, dichroics and halogens and that as such these should be considered a separate category to CFLs.
- 1.25. Ofgem comment: Ofgem agrees that, on balance, the 20% improvement for all lighting measures would be too difficult to meet and that in this case the suppliers should be required to improve the efficiency of lighting products by 10% to demonstrate a significantly greater improvement in energy efficiency. However, Ofgem does not accept the arguments that lighting measures other than CFLs should be considered an alternative action and therefore not have to pass any significantly greater improvement in energy efficiency test to be classed as Innovative Action. Ofgem reiterates, however, that these measures could be considered qualifying action.

Heating

- 1.26. Most of the respondents commented that it was not appropriate to group heating and hot water into the same means. One respondent commented that the SEDBUK¹ efficiency is in fact a measure of the heating efficiency rather than the system efficiency, for which it is used in the EEC. Several respondents suggested that Ofgem should maintain an open mind about whether there was potential for boilers to be innovative action. Another respondent suggested that solar water heating and solar thermal were not interchangeable terms and some solar thermal systems did in fact provide some heating. The respondents that commented on solar thermal systems suggested that they saved more energy than was actually accredited.
- 1.27. Ofgem comment: In light of the evidence provided by respondents, Ofgem considers that it would be better to consider heating and hot water measures as separate actions. Ofgem will consider the information the suppliers want to

¹ Seasonal Efficiency of Boilers in the UK.
Energy Efficiency Commitment Innovative Action – summary of responses
Office of Gas and Electricity Markets

submit about claiming the innovative action incentive for boilers, but notes that because suppliers installed amongst the most efficient gas and LPG boilers in the EEC 2002-2005, it is unlikely that these products will be able to demonstrate a significantly greater improvement in energy efficiency.

Heating controls

- 1.28. There was general support for Ofgem's proposals in its consultation paper, although one respondent commented that new types of heating controls should be considered a separate action. This respondent also felt that the improvement threshold might be difficult for manufacturers to achieve and that it would be better to set a lower threshold that would allow new types of heating controls to be eligible for the incentive for innovative action.
- 1.29. Ofgem comment: Ofgem is required to determine whether a 'new means' leads to a significantly greater improvement in energy efficiency for a similar type of action. In this case the action is the controlling of a heating system. It will therefore be necessary for any new controller to lead to a significantly greater improvement in energy efficiency.

Cold appliances

- 1.30. All the respondents commented that the cold appliance threshold for demonstrating a significantly greater improvement in energy efficiency should be set at the A+ rated level. They suggested that the market penetration of these products was so low that it was appropriate to accredit A+ rated models as innovative.
- 1.31. Ofgem comment: At the time of drafting the consultation paper on Innovative Action the suppliers had not completed their reporting on the EEC 2002-2005 activity. This activity is now complete and it shows that no supplier had an A+ rated appliance accredited under the EEC 2002-2005. Ofgem therefore considers it appropriate to set the threshold for demonstrating a significantly greater improvement in energy efficiency at the level of A+ rated.

Wet appliances

- 1.32. One respondent commented that the 40% improvement as proposed in the consultation paper was too severe and the threshold should be set at a similar level to that of the A+ cold appliance level. Others commented that the threshold of 0.17 kWh/kg of wash was a suitable level to set the threshold for innovative action.
- 1.33. Ofgem comments: The threshold for the improvement in energy efficiency for wet appliances may seem large. However, it reflects the fact that there was little difference in the energy consumption between the market average appliance and the A-rated appliances that were promoted in the EEC 2002-2005. The EST has suggested that the level of 0.17 kWh/kg is achievable and some models are being brought to market.
- 1.34. Two respondents commented that it considered that the threshold for wet appliances should be AAA rated with the eco label for water consumption.
- 1.35. Ofgem comment: Ofgem is only in a position to suggest a threshold in relation to the energy consumption, not the general performance of a washing machine, which the AAA label also covers.

Jug kettles

- 1.36. One respondent commented that Ofgem should remain open minded about whether innovative measures could be brought forward for the provision of hot water for, for instance, drinking purposes.

Comments made that do not relate to the Innovative Action Consultation

Renewable generation and energy from biomass

- 1.37. A number of respondents commented that they considered renewable electricity generation and energy from biomass should be eligible for the incentive for innovative action.

1.38. Ofgem comment: Ofgem reiterates the view it expressed in its Administration Procedures document that it does not consider renewable electricity generation technologies to be an energy efficiency measure. It also notes that in the case of renewable generation there would be scope for the double counting of the benefits, as these technologies can be accredited in the Renewables Obligation. In the case of biomass used for heating purposes, biomass is not listed as a fuel in the Order, nor does the Order provide a fuel standardisation factor for biomass. Ofgem does not have any discretion in this respect and it cannot therefore be attributed an energy saving.

Other comments

1.39. A number of respondents commented on other issues that fell outside the areas of the consultation. One respondent considered that the EEC should be designed in a way that required the suppliers to target 10% of their activity on hard to treat homes. Another considered that it would be appropriate to increase the level of monitoring for appliances while another commented that the testing regime required to demonstrate a product is eligible for innovative action should be more transparent. Finally one respondent commented that it would be better to adjust the energy savings from the products as more information becomes available.

1.40. Ofgem comment: The incentive for innovative action is to encourage new technologies to be used in the EEC 2005-2008. It therefore does not cover a requirement on the suppliers to target hard to treat homes. The labelling of appliances is self regulated. Imposing appliance testing is not a requirement under the Order and we do not therefore consider it appropriate to require suppliers to test appliances. With respect to the testing of products, Ofgem reiterates that it is important to get energy savings verified by an independent test house for any new product. However, setting out a standard test procedure is difficult given the varying nature of the products being used by the suppliers and the procedures that have been used in the past. Ofgem maintains that it is willing to consider the most appropriate way to determine energy savings for new products with the suppliers.

1.41. Finally, Ofgem has some concerns with the idea of adjusting the energy savings for products at different times through the programme. Failing to agree energy

savings for the products the suppliers are utilising on their schemes at the scheme approval stage fails to provide the companies with the regulatory certainty they need to undertake their investments. With respect to new products, Ofgem is willing to accredit products on an ex-post basis, but acknowledges that this exposes suppliers to a level of risk, as there is no guarantee of a return on the investment if the new product fails to lead to an improvement in energy efficiency.

Appendix 1 List of organisations responding to the consultation document

Beama Energy

British Gas

Du Pont

Eaga

EDF Energy

Energy Efficiency Partnership for Homes – White Goods Group

Energy Saving Trust

Insulation Render & Cladding Association

National Insulation Association/Cavity Insulation Guarantee Agency

Npower

Oftec

Pilkington

Powergen

Scottish and Southern Energy

Tribal Dundas

Warm Zones Limited