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*Promoting choice and
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Dear John,

Promotion of Energy End-use Efficiency and Energy Services: Implementing Directive 2006/32/EC in the UK

We welcome the work that Defra is taking forward in seeking to ensure the appropriate implementation of Directive 2006/32/EC (the Directive) and appreciate the opportunity to respond to the above consultation.

Tackling the effects of climate change is one of the most significant global challenges we currently face. The energy sector is responsible for around 44% of greenhouse gas emissions in the UK, and therefore has a major role to play in meeting this challenge. As such, the development of a low carbon energy sector has become a priority for government at both a national and European level. As the regulator for the gas and electricity sector, we welcome the initiatives being progressed by Government to address climate change issues and facilitate the achievement of sustainable development.

We agree with Defra's views that the competitive energy markets in the UK should ensure that there is scope to offer energy services and energy efficiency improvement measures. We consider that where there is clear information available to stimulate customer demand for these types of products, suppliers will innovate to meet these demands in order to attract more customers.

In order to achieve the Government's climate change objectives, we believe that it is important that energy customers are engaged in this process. We are therefore very supportive of initiatives which are working to achieve greater levels of energy efficiency. As long as customers have access to clear and sufficient information to allow them to make informed choices regarding their energy consumption, we believe that customers will respond to market signals and take rational decisions on this basis. Considerable levels of customer response to market signals has been seen over recent winters, where in response to high energy prices, customers reduced their energy consumption. This response was evident with both large customers switching to alternative fuels, as well as smaller customers engaging in more efficient energy consumption. We are keen to ensure that further demand side participation in the market is facilitated as far as possible by working closely with customers in our role chairing the Demand Side Working Group (DSWG).

We note Defra's views that the UK is currently compliant with many articles of the Directive. While we have not carried out a review of the provision of available products relevant to energy efficiency and energy services, we recognise that there are a number of positive initiatives being taken forward in the UK in this regard. These include Government sponsored schemes such as the Energy Efficiency Commitment (or Carbon Emissions Reduction Targets (CERT) as it will be known from 2008), which has been successfully administered by Ofgem since the implementation of phase 1 in 2002. In addition, there are a number of commercial tariffs being offered by suppliers which seek to facilitate further energy efficiency and are therefore consistent with government policies in this regard¹.

While we are not directly involved in any projects that have as their specific aim the achievement of further energy efficiency we thought this was a useful opportunity to raise awareness regarding some related initiatives that are currently being taken forward. These initiatives are discussed in more detail in the section below.

The European context

We are currently involved in work being undertaken within the Council of European Energy Regulators (CEER), working to improve the levels of information sharing between Member State regulators in relation to initiatives focussed upon energy end use efficiency and energy services. In the Commission Communication regarding the Energy Efficiency Action Plan (EEAP)², it sets out that:

"Full collaboration from Member State authorities in implementing the Directive is required, in so far as drawing up ambitious national Action Plans is concerned. Under the auspices of this Directive, the Commission will prepare a Memorandum of Understanding in co-operation with the Council of European Energy Regulators (CEER) setting forth guidelines and a code of conduct on improving energy end-use efficiency in all sectors".

The Environmental Taskforce (Env TF) is a working group of CEER (to be referred as the Sustainable Development Taskforce from 2008 onwards – SD TF). It was initiated in 2006 with its remit being the analysis and assessment of environmental issues related to the CEERs role in facilitating the creation of a single, competitive, efficient and sustainable internal market for gas and electricity in Europe. A key piece of work that the SD TF is taking forward over the next year is the development and implementation of a joint Memorandum of Understanding (MOU) and associated guidelines with other EU regulators. The aim of the MOU and guidelines is to facilitate the exchange of information and experience between European energy regulators including details of best practice in the achievement of energy end use efficiency. The MOU therefore sets out that Member State regulators will seek to:

- exchange information with respect to initiatives regarding energy end use efficiency, providing details of where such initiatives have been successful in reaching desired objectives;
- share experience with respect to the formulation and implementation of initiatives regarding energy end use efficiency; and
- provide details of best practise experiences with respect to energy end use efficiency.

We anticipate that the implementation of the MOU and associated guidelines from the beginning of 2008 will not only be useful in disseminating information in continental Europe

¹ For more details on the tariffs offered which incorporate energy efficiency measures please see the energywatch website at: http://www.energywatch.org.uk/help_and_advice/green_tariffs/available_tariffs/index.asp

² COM 2006 (545) Communication from the Commission of 19 October 2006 – Action Plan for Energy Efficiency: Realising the Potential

regarding the GB experience but will also allow us to gain insights and exposure to the work that other Member State regulators are taking forward to facilitate energy end use efficiency. This could be useful in a number of areas but particularly in relation to their experiences with respect to the implementation of smart metering and any lessons learnt that they may be able to keep us informed of. We will be happy to share useful findings from these discussions with Government and other stakeholders as they develop.

'Green' Supply

We are currently working with industry and key stakeholders to update our guidelines for 'green' supply tariffs. Proposals that have emerged from our consultation and industry workshops have included suggestions to rate the carbon intensity (similar to energy rating of appliances) of supply tariffs, as well as proposals to introduce a 'kitemark' that provides customers with an indicator of the renewables content of the tariff. While these proposals are still being developed for consultation, an aim of these proposals is to enable a stronger customer signal to be demonstrated regarding the carbon or renewables preferences of consumers. We anticipate that this will lead to stronger investment signals from the demand side to generators regarding the need to change their generation mix over time.

At present the guidelines are silent on the issue of energy efficiency and energy services but we anticipate that they will evolve over time in response to changes or innovation in the market and that it may therefore be possible for them to be amended to incorporate reference to energy efficiency products as well as energy services more widely. However, in the absence of these changes, we note that there is the potential for provisions within the guidelines to allow suppliers to identify activities in which they are engaging which provide additional environmental benefits. It is possible that additional activities that suppliers carry out which relate to achieving greater energy efficiency could be included within this definition.

Smart Metering

We are currently running a trial of smart metering technology together with industry, the 'Energy Demand Research Project', on behalf of Government. This project was initiated to trial better billing and a range of smart meter technologies to assess how they might help customers take more efficient decisions regarding their energy use.

Work is also currently being undertaken within Ofgem by the interoperability steering group to assess the extent of any legal or regulatory barriers to the uptake of smart metering that may exist.

I hope that these comments are helpful. Please contact me on the number above or my colleague Hannah Cook on 0207 901 7444 if you would like to discuss any of the issues outlined in this responses in more detail.

Yours sincerely

Jo Witters
Head of European Strategy & Environment