

**Energy Efficiency Commitment
Administration Procedures**

Consultation document

September 2001

Summary

The Electricity Act 1989 and Gas Act 1986, as amended by Sections 70 and 99 of the Utilities Act 2000, give provision for energy efficiency obligations to be set for electricity and gas suppliers by the Secretary of State. It is Ofgem's duty to administer this programme, to be known as the Energy Efficiency Commitment. This consultation document outlines the administrative procedures for licenced energy suppliers with a target under the Energy Efficiency Commitment.

The Energy Efficiency Commitment (EEC) 2002 – 2005 will follow on from the Energy Efficiency Standards of Performance programmes which began in 1994. It also forms part of the Government's Climate Change Programme and is highlighted in the draft Fuel Poverty Strategy.

The policy for the EEC has yet to be finalised and is set out by the Department for Environment Food and Rural Affairs (DEFRA) in the Energy Efficiency Commitment 2002-2005 Consultation Proposals, published in August 2001. All energy suppliers with at least 15,000 customers will have an obligation to achieve improvements in energy efficiency. Suppliers will be required to meet this target by providing and installing energy efficiency measures in homes. At least 50% of the energy savings must be targeted at customers receiving benefits or tax credit.

Ofgem is required to carry out a number of determinations in the course of administering the EEC. First, Ofgem is required to determine the apportionment of the overall obligation to each supplier. Ofgem will determine individually each supplier's target each year of the EEC. Secondly, Ofgem is required to determine whether actions proposed by a supplier qualify for the purpose of meeting the obligation. Suppliers will be required to submit schemes for approval and through this Ofgem will determine which actions qualify. Ofgem is required to determine what improvement in energy efficiency is to be attributed to the qualifying action. These energy savings will be based on information collected from recognised sources. Ofgem will collect data on each scheme to determine the actual energy saving achieved. Ofgem has developed procedures for the continuing monitoring of each supplier's progress against their target and compliance with their obligation. Another important part of Ofgem's role is to oversee the trading arrangements between suppliers. Suppliers will be required to notify Ofgem of all proposed trades and seek approval before finalising a transaction.

After considering the responses to this document, Ofgem will publish its administrative procedure manual in January. This manual will offer guidance on all aspects of compliance with the Energy Efficiency Commitment.

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1. Introduction

Purpose of this document

- 1.1 This consultation paper describes how Ofgem plans to administer the Energy Efficiency Commitment (EEC) for the period April 2002 to March 2005. Ofgem invites views on the contents of this document and further steps worth considering.
- 1.2 The Electricity Act 1989 and Gas Act 1986, as amended by Sections 70 and 99 of the Utilities Act 2000, give provision for energy efficiency obligations to be set for electricity and gas suppliers by the Secretary of State for Environment, Food and Rural Affairs. This document follows on from the Department for Environment, Food and Rural Affairs' (DEFRA) Energy Efficiency Commitment 2002-2005 Consultation Proposals, August 2001. DEFRA's consultation includes the draft Statutory Instrument for the EEC, upon which Ofgem's procedures are based. In the drafting stages of this paper Ofgem has held discussions with DEFRA, the electricity and gas suppliers, the Energy Saving Trust (EST) which has administered the EESoP programmes since 1994, and other interested parties. Any changes to the draft Order could affect Ofgem's administration procedures for the EEC.

Background

- 1.3 Energy Efficiency Standards of Performance (EESoP) were introduced in 1994 in England and Wales as part of the Public Electricity Suppliers' (PES) Supply Price Control, and a year later in Scotland. These Standards ran until March 1998, and gave obligations to each of the 14 PESs to achieve specified energy savings, and the ability to fund them through a special revenue allowance equivalent to £1 per franchise customer per year. The EESoP 1 scheme was extended for two years under EESoP 2 and ran between April 1998 and March 2000. In the EESoP 3 obligation the target was extended to include second tier electricity suppliers and gas suppliers, with the equivalent allowance increasing from £1 to £1.20 for each customer for each fuel per year. This work is continuing with the final submission of schemes due in January 2002 with completion reports to be finalised by March 2003.

- 1.4 The National Audit Office carried out a detailed independent value for money examination for EESoP1¹ in 1998 and concluded that:
- The programme had a net present value saving of £250m;
 - In addition, a further £80m worth of comfort improvement had been achieved, in terms of warmer homes, improved lighting etc;
 - The average cost of saving a unit of electricity was 1.8 p/kWh, comparing very favourably with the then price of electricity – 7.1 p/kWh on-peak; 2.7 p/kWh off-peak.
- 1.5 The success of the Energy Efficiency Standards of Performance has been acknowledged by the Government. The Energy Efficiency Commitment is regarded by Ministers as an integral part of the Climate Change Programme². In addition, the draft Fuel Poverty Strategy³ highlights that improvements in energy efficiency would help reduce fuel poverty. Consequently the Energy Efficiency Commitment ties in with two Government initiatives. From April 2002, as a result of the changes in the Utilities Act 2000, the energy efficiency target will be set by DEFRA, with Ofgem required to administer the programme.
- 1.6 In administering the EEC Ofgem intends to continue to reduce the burden of regulation on the suppliers as much as possible, in accordance with Ofgem's overall remit. The initial EESoP programme was closely monitored as both the regulator and the suppliers observed how the new statutory requirement would affect the suppliers' businesses. As time has progressed and competition has increased, the prescriptive nature of the schemes has been reduced. It is proposed to continue in this way under the EEC.
- 1.7 Suppliers are under a separate obligation in their licences to provide energy efficiency advice. Effective advice will assist in the delivery of the EEC measures. A note on Ofgem's current work on energy efficiency advice is included in Appendix 2.

¹ Improving Energy Efficiency Financed by a Charge on Customers, July 1998, National Audit Office

² Climate Change the UK Programme, November 2000, DETR

³ The UK Fuel Poverty Strategy Consultation Draft, February 2001, DETR and DTI

Role of the suppliers

1.8 Each supplier affected by the legislation governing the EEC will be required to meet an energy efficiency target. It will be required to meet this target by providing and installing energy efficiency measures in homes.

A review of Ofgem's duties under the EEC

1.9 The Utilities Act 2000 empowers Ofgem to administer the suppliers' energy efficiency obligation. The key aspects of Ofgem's remit are detailed in DEFRA's Consultation Proposals and include:

- apportioning the overall EEC obligation between suppliers,
- determining which measures qualify under the EEC,
- determining the improvements in efficiency to be attributed to measures,
- recording each supplier's actions and the resultant energy and carbon saving,
- monitoring suppliers' performance,
- reporting to the Secretary of State annually,
- overseeing trading arrangements and recording transactions,
- enforcing suppliers' EEC obligations,
- requiring suppliers to provide information about their proposals.

1.10 Ofgem is required to carry out a number of determinations in the course of administering the EEC. First, Ofgem is required to determine the apportionment of the overall obligation to each supplier. Ofgem will determine individually each supplier's target each year of the EEC. Secondly, Ofgem is required to determine whether actions proposed by a supplier qualify for the purpose of meeting the obligation. Suppliers will be required to submit schemes for approval and through this Ofgem will determine which actions qualify. Finally, Ofgem is required to determine what improvement in energy efficiency is to be

attributed to the qualifying action. This will be established through completion reports and monitoring of each scheme.

- 1.11 Section 2 of this document gives an overview of the proposed administrative arrangements for the EEC. Section 3 provides details on the target setting process. Section 4 considers the scheme submission process with section 5 detailing the proposals for monitoring the schemes. Finally Section 6 outlines the methodology for trading energy savings and targets in the Energy Efficiency Commitment.
- 1.12 After considering the responses to this document, Ofgem will publish its final guidelines document by January. This document will be for suppliers to use as an administrative procedure manual for complying with the Energy Efficiency Commitment.
- 1.13 Comments on this consultation document should be sent by 12 November 2001 to:
- Charles Hargreaves,
Head of Energy Efficiency
Ofgem
9 Millbank
London
SW1P 3GE
- Email: charles.hargreaves@ofgem.gov.uk
- Telephone enquiries: 020 7901 7459
- 1.14 In accordance with our normal practice, we intend to make responses to this consultation available, through the Ofgem Library. However, if asked to do so, we shall respect the confidentiality of any response. Respondents wishing their responses to remain confidential should clearly mark their document to that effect.

2. A summary of the administrative requirements of the EEC and the relevant roles

EEC function	Ofgem Responsibility <i>as stipulated in DEFRA's EEC Consultation Proposals</i>	Supplier Role	Ofgem Role
1. Target setting	<i>Ofgem shall be responsible for apportioning the overall EEC obligation between suppliers.</i>	Suppliers will be required to send their customer numbers to Ofgem each year.	Ofgem will be required to set the individual supplier's EEC targets annually according to the apportionment curve and the timetable in the Order.
2. Scheme submission a) energy savings	<i>Ofgem will be responsible for determining which measures are qualifying action under the EEC and the improvements in efficiency to be attributed to measures.</i>	Where a supplier wishes to use a new / innovative measure, they may be required to seek independent verification of the energy savings.	Ofgem will determine what is qualifying action under the EEC.

EEC function	Ofgem Responsibility <i>as stipulated in DEFRA's EEC Consultation Proposals</i>	Supplier Role	Ofgem Role
b) scheme approval	<i>Ofgem will be authorised to require suppliers to provide information on their proposals for complying with their obligations.</i>	Suppliers will have to submit all schemes to Ofgem for approval using the submission pro forma. This will cover the measure types, numbers, expected savings and a written methodology.	Ofgem will approve schemes that conform to the legislation and will verify the energy savings.
3. Quarterly progress reports	<i>Ofgem will be responsible for monitoring suppliers' performance in meeting their obligations</i>	Each quarter, suppliers will be required to submit a report detailing the progress of the schemes commenced and the forecast energy savings.	Ofgem will monitor each supplier's progress. This information may feed into Ofgem's annual report on the EEC for the Secretary of State.
4. Annual reports	<i>Ofgem is responsible for reporting to the Secretary of State annually.</i>	Suppliers will be required to produce an annual report outlining their energy efficiency programmes.	Ofgem will use this data for reporting annually to the Secretary of State.

EEC function	Ofgem Responsibility <i>as stipulated in DEFRA's EEC Consultation Proposals</i>	Supplier Role	Ofgem Role
5. Completion reports	<i>Ofgem will be responsible for monitoring suppliers' performance in meeting their obligations.</i>	Suppliers will be required to notify Ofgem once a scheme is completed and submit data showing the types and numbers of measures installed by tenure and therefore the actual savings achieved. A description of the actual methodology will also be required.	Ofgem will need to compare savings against the scheme submission and supplier targets. This will allow Ofgem to monitor how suppliers are progressing towards their targets.
6. Quality Monitoring	<i>Ofgem will be responsible for monitoring supplier's performance in meeting their obligations.</i>	Suppliers will be required to send customer satisfaction and quality assessment questionnaires to a proportion of recipients after a scheme is completed.	Ofgem shall monitor that recognised standards have been met and the recipients are satisfied with the measures / level of service.
7. Auditing	<i>Ofgem will be responsible for monitoring supplier's performance</i>	Suppliers' EEC work will have to be independently audited.	Ofgem will ensure that all suppliers are audited over the course of the

EEC function	Ofgem Responsibility <i>as stipulated in DEFRA's EEC Consultation Proposals</i>	Supplier Role	Ofgem Role
	<i>in meeting their obligations.</i>		EEC.
8. Targeting of the Priority Group	Suppliers will be required to focus at least 50% of their obligated energy savings at householders in receipt of benefit or tax credit.	Suppliers will be required to target at least 50% of their energy savings on the priority group and provide sufficient evidence for this.	Ofgem will have to track the proportion of savings made in the priority group per scheme and the overall proportion of energy savings across each supplier's schemes made in the priority group.
9. Trading	<i>Ofgem is responsible for overseeing trading arrangements and recording transactions.</i>	Suppliers have the option of trading energy savings or targets.	Ofgem will need to register the trades of energy efficiency savings, including the parties involved, the amount of savings and the proportion in the priority group.
10. Carry over of EESoP 3	<i>In carrying over EESoP 3 savings, Ofgem is responsible for recording each supplier's actions and the</i>	Energy savings surplus to those in EESoP 3 can be carried over to the	Ofgem will be required to monitor the extent to which suppliers want to carry over savings and adjust the

EEC function	<i>Ofgem Responsibility as stipulated in DEFRA's EEC Consultation Proposals</i>	Supplier Role	Ofgem Role
savings	<i>resultant energy and carbon saving.</i>	EEC.	savings to the EEC rules.
11. Supplier's compliance	<i>Ofgem is responsible for enforcing suppliers' EEC obligations.</i>	Suppliers meet their EEC target by submitting and running schemes and reporting to Ofgem.	Ofgem needs to co-ordinate supplier's scheme details with their reporting data and their overall target to ensure compliance.

3. Target setting

The overall target

- 3.1 DEFRA has set suppliers a total target of 64 TWh of fuel-standardised energy savings to be met in efficiency improvements from April 2002 to March 2005. The methodology used to derive this target is explained in DEFRA's consultation paper. **Ofgem shall be responsible for apportioning the overall EEC obligation between suppliers⁴.**

Companies covered by the Energy Efficiency Commitment

- 3.2 For electricity suppliers, provision for setting obligations is under section 70 of the Utilities Act 2000 and for gas suppliers under section 99 of the Act. The legislation allows the Secretary of State to impose an energy saving target on all supply companies or on all supply companies over a certain size.
- 3.3 All licensed gas and electricity suppliers will be required to provide, by 10 January, their domestic customer numbers on the previous 31 December for each relevant year of the EEC. Ofgem shall collate this information and will be required to set the targets by 31 January.
- 3.4 The targets will originally be set on domestic customer numbers counted on 31 December 2001. Targets will be reviewed annually, in light of changes to customer numbers, and adjustments will be made accordingly. Customer numbers will again be collected and revisions made at the end of December 2002 and December 2003. Over the three years of the EEC, the target for the company will be based on the average customer numbers counted in December 2001, December 2002 and December 2003. There will be no mid year revisions of targets.

⁴ Sections in bold refer to Ofgem's main responsibilities, as stated in DEFRA's Consultation Proposals, August 2001

Table 1: Timetable for setting and adjusting energy efficiency targets

Collect customer numbers	Set targets	Target
31 December 2001	31 January 2002	Provisional target based on customer numbers of 31 December 2001
31 December 2002	31 January 2003	Provisional target based on the average customer numbers of 31 December 2001 and 31 December 2002
31 December 2003	31 January 2004	Final target based on the average customer numbers of 31 December 2001, 31 December 2002 and 31 December 2003

3.5 As outlined in DEFRA's draft Statutory Instrument, suppliers that have less than 15,000 customers throughout the EEC will not have a target. In setting a threshold of 15,000 customers it is recognised that the very small suppliers will have significantly higher average costs in delivering energy efficiency schemes than will other suppliers. Suppliers that have at least 15,000 customers at one or more of each of the dates on which the customer numbers are collected will have a target. Suppliers that have at least 15,000 customers on each date will have a target based on the average customer numbers over the three dates. A supplier with at least 15,000 customers on one of the dates when the customer numbers are collected, but not on the other two dates, will have a target based on one third of its customer numbers, even if this falls below 15,000. A supplier with more than 15,000 customers on two of the dates when customer numbers are collected will have a target based on two-thirds of its averaged customer numbers on the two dates, even if this falls below 15,000 customers.

3.6 This is explained by the following examples:

Table 2: Example 1, Setting the target for smaller suppliers

Supplier A customer number on 31 Dec 2001	5,000	Not counted
Supplier A customer number on 31 Dec 2002	10,000	Not counted
Supplier A customer number on 31 Dec 2003	15,000	Counted
Customer number on which target is based for Supplier A	5,000	15,000/3

Table 3: Example 2, Setting the target for smaller suppliers

Supplier B customer number on 31 Dec 2001	10,000	Not counted
Supplier B customer number on 31 Dec 2002	15,000	Counted
Supplier B customer number on 31 Dec 2003	18,000	Counted
Customer number on which target is based for Supplier B	11,000	$(15,000 + 18,000)/2^{2/3}$

3.7 As set out in the draft Statutory Instrument, DEFRA has decided to continue Ofgem's EESoP 3 methodology into the EEC for setting progressively tighter targets for companies of increasing size. However, DEFRA has decided to use a formula to produce 'EEC-adjusted' customer numbers instead of directly producing a target. These numbers will then be used to divide up the overall target between the suppliers. The 15,000 customer number target threshold will apply to actual, not adjusted, customer numbers.

3.8 For example, a supplier with 100,000 customers will have an 'EEC-adjusted' customer number of 80,000, whereas a supplier with 1,000,000 customers will have an 'EEC-adjusted' customer number of 880,000. The linking of customer numbers to 'EEC-adjusted' customer numbers is incorporated in the energy saving target determination by the following formulae (as used to specify the graph in DEFRA's draft Statutory Instrument):

$$\text{Adjusted number} = N * (0.0388 * \ln(N) + 0.3473)$$

Where:

ln is the natural logarithm

N is the supplier's customer numbers

Table 4: Conversion of customer numbers to 'EEC-adjusted' customer numbers

No. of Customers (million)	'EEC-adjusted' customer numbers (million)
0.015	0.01
0.100	0.08
1	0.88
2	1.82
15	14.83

3.9 The supplier targets for the EEC will be set by licence in accordance with the provisions set out in the Utilities Act 2000. Suppliers will be able use energy efficiency improvements from electricity, gas, coal, oil and liquid petroleum gas to meet either of their targets, as the target will be in fuel standardised units. Although the target will be set on a supplier's domestic gas and electricity customer numbers, the efficiency schemes do not have to be contained to the supplier's own customers and can include households using solid and liquid fuels.

4. Scheme Submissions

- 4.1 **Ofgem is authorised to require suppliers to provide information about their proposals for complying with their obligations. Ofgem shall also be responsible for determining which measures are qualifying action under the EEC and the improvements in efficiency to be attributed to each measure.**
- 4.2 Suppliers will be required to meet their obligation by setting up energy efficiency schemes having regard to the criteria set out in the Order and the procedures published by Ofgem following this consultation. Ofgem will determine whether the scheme is qualifying action. In order to be determined as qualifying action, a supplier must first have its scheme approved by Ofgem. This will also assist Ofgem in tracking supplier's progress against its target.
- 4.3 EEC schemes can be submitted to Ofgem once the targets have been set. The draft Order states that the targets must be set by 31 January 2002. EEC schemes can commence after this date.

Carry-over of EESoP 3 savings

- 4.4 DEFRA's Consultation Document states that suppliers with an EESoP target will be able to carry-over excess EESoP 3 action towards the EEC. This amount should not account for more than 10% of a supplier's EEC target. Excess 'action' will be classed as the installed energy efficiency measures, not the energy savings accreditable under EESoP 3. Because the accreditation of energy efficiency measures differs between EESoP3 and the EEC, surplus measures that count towards the suppliers' EEC target will gain the relevant EEC savings as set by Ofgem.
- 4.5 **Ofgem will be responsible for recording each supplier's actions and the resultant energy and carbon savings to be transferred into the EEC.**
- 4.6 Excess EESoP savings can result from the extension of existing EESoP 3 schemes, or the submission of new EESoP schemes. These will be assessed and approved through the normal EESoP rules. All EESoP schemes must be submitted to Ofgem for approval by 31 January 2001. Once the relevant EESoP monitoring requirements have been fulfilled, the surplus measures can be passed into the EEC and the savings calculated accordingly.

- 4.7 Ofgem expects suppliers to provide an indication of the schemes they are planning to extend and their expected excess EESoP 3 savings by the end of EESoP 3. This estimate should be broken down by measure type, numbers and priority focus. This data shall be verified through EESoP completion reports before the savings are banked under the EEC. Suppliers will have the option of trading these savings.

Scheme approval

- 4.8 It is important that Ofgem is aware of the steps suppliers are taking to meet their targets. Suppliers should submit schemes to Ofgem for approval before commencement or within one month of work commencing. Suppliers will not have to have their schemes pre approved. In this way suppliers' work will not be delayed while Ofgem considers their proposals and any issues arising can be resolved before suppliers have undertaken too much work. Approval determines whether the proposed project qualifies under the legislation and confirms the expected energy savings. Approval of a scheme does not negate a supplier's responsibilities under the Competition Act 1998.
- 4.9 Suppliers must complete two submission pro forma for each EEC scheme. The first details the planned types and numbers of measures and therefore the expected energy savings. The second provides a written description of the scheme methodology. Appendix 1 gives an example of the written pro forma. Ofgem aims to complete and circulate the submission pro forma to suppliers by the end of 2001, for submission from February 2002. Each scheme shall be given a unique reference number. Further information may be requested where deemed appropriate, for example where a new measure is used.
- 4.10 To enable Ofgem to cope with the large number of schemes for approval at the beginning of the EEC, a submission schedule shall be devised and circulated. This will have monthly deadlines for the submission of schemes by suppliers, and deadlines for Ofgem to respond. An example of a scheme submission schedule is given below. It is planned to extend this schedule throughout the EEC (2002-05).

Month of schedule	Completed scheme submissions arrive at Ofgem (by post or email) Action: Suppliers	Scheme submissions assessed Action: Ofgem	Ofgem liaises with suppliers regarding any queries / issues Suppliers provide any further information where requested Action: Ofgem and Suppliers	Determination issued on scheme submission Action: Ofgem
	<i>First working day</i>	<i>10th working day</i>	<i>18th working day</i>	<i>Last working day</i>
February	By Friday 1 st	By Thursday 14 th	By Tuesday 26 th	Thursday 28 th
March	By Friday 1 st	By Thursday 14 th	By Tuesday 26 th	Friday 29 th
April	By Monday 1 st	By Friday 12 th	By Wednesday 24 th	Tuesday 30 th
May	By Wednesday 1 st	By Tuesday 14 th	By Friday 24 th	Friday 31 st

- 4.11 Where the size of an approved scheme increases by more than 25% of the size of the submission, suppliers should inform Ofgem.
- 4.12 It should be noted that suppliers who commence work on a scheme before Ofgem has approved it do so entirely at their own risk. Ofgem will not be obliged to accredit the energy savings of a scheme where it feels that the scheme does not conform to the EEC framework.
- 4.13 Ofgem recommends that suppliers planning to undertake retail schemes or energy service schemes should send them for approval before work commences.

Priority group

- 4.14 Suppliers are required to focus at least 50% of their obligated energy savings on householders in receipt of benefit and tax credit⁵, the 'priority group'. All scheme submissions shall be required to state the expected priority group benefit and a justification for this estimate. Scheme completion reports shall then confirm the actual achievement.
- 4.15 Adequate justification will be required from suppliers of the level of energy savings being claimed for the priority group.
- Where a supplier works with a Local Authority or Housing Association for example, the third party must write detailing the proportion of residents in the priority group to have benefited from measures.

⁵ The definition of the priority group is detailed in Schedule 2 of the draft Statutory Instrument, in DEFRA's consultation document.

- Where a supplier offers a scheme to its own customers that doesn't involve a home visit, they should be able to provide a reliable estimate of the numbers of recipients receiving benefit by surveying or monitoring all the recipients.
- Where a scheme involves a retailer, and it is not possible to survey at least a proportion of recipients, the supplier and the retailer must use all available information to make an informed estimate of the level of customers receiving benefit.
- For mail order schemes that might include consumers that are not the supplier's customers, the status of the recipient is often unknown. Ofgem therefore expects suppliers, and any other party involved, to use all available information to make an informed estimate. Such information could include the level of the subsidy, the geographical location of the scheme and the medium of marketing.

Qualifying measures

- 4.16 **Ofgem is responsible for determining which measures are qualifying action under the EEC and the improvements in efficiency to be attributed to each measure.** Qualifying action is described in the legislation as an 'activity that produces an improvement in energy efficiency.'
- 4.17 As the overall EEC target is a numerical, energy saving one, 'qualifying action' must be quantifiable. The accredited energy savings for each qualifying measure will be taken from an approved source, for instance the figures for insulation and condensing gas boilers will be taken from the Building Research Establishment (BRE). As far as possible the figures will correspond to DEFRA's illustrative mix. During the course of the EEC (2002-05), the stated energy savings per measure will not be altered. New qualifying measures can be added.
- 4.18 Where a supplier wishes to employ a new or innovative measure, Ofgem will require that supplier to provide independent verification of the energy savings from an approved body. All innovative schemes should be submitted for pre approval. Ofgem may ask for additional information to accompany an application for a new measure.
- 4.19 It is planned to limit the number of compact fluorescent lamps (CFLs) that are accredited sent to customers through the mail. There is evidence that some

CFLs are being stored and are not in use. In addition as the CFL retail market has matured and the EESoP programmes have continued to supply CFLs to households the ownership rate of CFLs has increased. There is also evidence that the annual energy saving from CFLs is very much reduced from the fourth or more CFL that is installed in a home.

4.20 It is therefore proposed to limit the number of CFLs that can be sent through the mail to customers over the course of the EEC (2002-05) to three per household. At the same time Ofgem would require suppliers to limit the offer of CFL schemes to one per household over the course of the EEC (2002-05). Ofgem is interested in hearing the views of others on the issue of the sending of CFLs to households through the post.

4.21 Sales of CFLs through retail outlets will not be limited, although suppliers must put in place the mechanism for customers to purchase CFLs individually through this route, that is they should not set up a scheme with a retailer where customers can only buy four or more CFLs.

Energy services

4.22 DEFRA's consultation document outlines proposals for incentivising energy service schemes under the EEC. The incentive credits suppliers with an additional 50% energy saving for eligible measures in energy service schemes, contributing up to 10% of a supplier's overall target. The energy saving score will be inflated by 50% until 10% of a supplier's target has been reached through energy services. Energy service schemes that achieve over and above 10% of the supplier's target will not have the energy saving score inflated by 50%.

4.23 The actual definition of energy services for the EEC has yet to be finalised by DEFRA. If the final definition includes energy efficiency advice, the advice component will be part of the service and will not be accredited with an energy saving.

Deadweight

4.24 DEFRA's consultation document outlines an estimate of all the household energy efficiency activity in the UK over the period 2002-2005. It includes the measures installed as business as usual ('deadweight') subsidised by the EEC and

measures that are additional due to the EEC. The Government expects suppliers to demonstrate clear additionality in each of the schemes they carry out. In developing procedures for assessing EEC schemes, it is important for Ofgem to take deadweight into account.

4.25 Ofgem considers that schemes can be assessed in the following categories:

- Schemes providing measures which are considered 100% additional
- Schemes/projects which may have an element of deadweight
 - retail schemes
 - other delivery mechanisms

Schemes 100% additional

4.26 Fridgesaver schemes, 'A' rated appliances, heating controls and draught proofing are all considered to be 100% additional. Ofgem will therefore not monitor deadweight for such schemes even if part of a retail scheme.

Retail schemes

4.27 To assess a retail scheme, suppliers must provide Ofgem with the level of sales of the relevant measure(s) before and after the promotion. On this basis Ofgem would be able to assess the effect of the scheme on the retailer's sales. Sales from retail outlets inevitably will be affected by changes in the market place: either through promotion from other outlets and suppliers or market saturation. Suppliers should notify Ofgem of any factors that might have affected the performance of the scheme to ensure a fair level of accreditation is given. Where appropriate they could provide a letter from the retailer outlining the nature of their agreement.

4.28 There are several ways in which Ofgem could treat the deadweight component of the energy suppliers' retail schemes. Two suggestions are outlined below.

- Either, Ofgem could specify the minimum amount of additionality per scheme. As long as the supplier managed to exceed that level in its scheme it would receive the full accreditation for the deadweight.

- Or, the level of additionality could be assessed over a supplier's combined retail schemes, instead of per scheme. In this example, additionality will be the weighted average of the measures in supplier's retail schemes. Each supplier would have to have an average deadweight below the permissible level to fulfil its target, although each scheme must demonstrate some additionality.
- 4.29 The first option would be less flexible, but it would be more straightforward to assess how a supplier was progressing against its additionality target.
- 4.30 The second option is more flexible for suppliers but it would be more difficult to track a supplier's progress against its additionality target. Also, as a weighted average is used, suppliers will not know what their overall additionality level will be until they have completed all their retail schemes. This could lead to a shortfall in meeting their overall EEC target.
- 4.31 Ofgem considers it appropriate to set a minimum additionality target of around 25%, but will consider each case on its merits at the approval stage.
- 4.32 Ofgem seeks views on either of these options or alternative methodologies for tracking deadweight, especially within retail schemes.

Schemes involving other delivery methods

- 4.33 Ofgem accepts that it is difficult to assess and monitor levels of deadweight within non-retail schemes. Therefore, suppliers will receive the full energy savings as long as they demonstrate that additional energy savings have resulted from their funding or their marketing. This could include for instance the proportion of cost contribution to a local authority or housing association scheme or their marketing methods to households.
- 4.34 Because of the scale of the energy efficiency commitment there is concern that suppliers might, through no fault of their own, subsidise work that a third party had intended to carry out. Therefore Ofgem will require suppliers to get written notification from the third party, eg. a local authority, that the supplier's contribution is additional to the third party's original proposals, stating clearly the level of activity that had been originally planned or carried out in similar schemes.

4.35 It should be noted that the EEC target does not include measures that have been funded through HEES or measures that have been wholly funded by a third party i.e. a local authority. In addition it does not include measures that would be required as a result of the changes in Part L of the Building Regulations. Any measure that had been funded in any of these ways could not count towards any supplier's EEC target. In addition suppliers will not be able to buy retrospective sales of energy efficiency goods nor would they be able to count measures that have been used against energy efficiency targets in EESoP 1, EESoP 2 and EESoP 3. Nor would they be able to count measures that had been carried out by another supplier, unless they have been traded.

Adjusting the measure 'scores'

4.36 In paragraph 38 of Annex 1 of its consultation paper, DEFRA proposed that the scoring system for EEC schemes, by which the suppliers build up credits towards their total obligations, should be based on individual measures scores which are adjusted, using a pre-arranged formula applied to the lifetime fuel standardised energy savings, so as to narrow the range of the cost effectiveness of different measures. Following further discussion with DEFRA, Ofgem has decided not to consult on this issue.

Competition and marketing of schemes

4.37 As part of scheme approval under EESoP 3, Ofgem assessed each dominant supplier's schemes for any potential competition issues. Guidance was issued to suppliers on competition issues relating to EESoPs⁶. This guidance is still relevant and Ofgem would expect suppliers to take such matters into consideration when setting up a scheme. The guidance noted that any effects on competition are subject to the provisions of the Competition Act 1998. Under the Competition Act, companies have the option of seeking informal guidance or a formal determination for proposed schemes.

4.38 Suppliers will be allowed to market their schemes in any way that ties in with their business plan as long as it does not contravene competition and marketing legislation. Ofgem would encourage suppliers to publicise their schemes as

⁶ Energy Efficiency Standards (2000 – 2002) Guidance to gas and electricity companies on competition issues, March 2001

widely and publicly as possible. One such way could be to send schemes to the EST for inclusion on the Grants Information Database (<http://www.saveenergy.co.uk/common/cfm/grantsframeset.htm>). The benefits of this would be to ensure that the supplier's work did not clash with the similar work of other organisations and could also promote alliances with third parties. Ofgem would encourage suppliers to submit this information to the EST for inclusion in the database.

- 4.39 Ofgem considers that if suppliers highlight the EEC on customer bills' it should be done so in an even-handed way. It should highlight both the cost of the scheme and the benefits that result. Suppliers should state that the indicative amount of money being raised is to fund energy efficiency measures that will reduce consumers' fuel bills and/or lead to warmer homes.

5. Monitoring and Compliance

- 5.1 **Ofgem will be responsible for the overall enforcement of suppliers' obligations. Ofgem will be required to monitor suppliers' performance and report annually to the Secretary of State on suppliers' progress.**
- 5.2 In order to fulfil its duties under the EEC, Ofgem will set up regular procedures for ongoing reporting as well as for monitoring scheme by scheme. Ofgem shall compile information from all these monitoring requirements to submit to the Secretary of State. Independent audits will also be carried out for each licensee to monitor compliance.
- 5.3 Energy efficiency projects should be within the public domain by 31 March 2005 with the necessary reporting requirements completed by 31 March 2006.

Quarterly progress reports

- 5.4 From April 2002, each supplier will be required to submit a quarterly progress report. The first will be due on 1 July 2002. This will detail each of the schemes submitted, their progress and the forecast savings. Schemes will be broken down by measure. This will also enable Ofgem to track how far the priority group has been targeted. This information will enable Ofgem to track each supplier's progress against their target.

Annual reporting

- 5.5 Suppliers shall be required to submit an annual report to Ofgem on 31 May in each of the years 2003, 2004 and 2005. There will be no prescribed format to the reports, however they must include the following information;
- the supplier's progress towards their target / obligation,
 - the schemes begun or completed during the period,
 - the reasons for carrying out these schemes,
 - the proposed schemes,
 - the steps which have been taken to meet the requirements of the legislation, including targeting the priority group.

- 5.6 The reports should be made available to customers and any other interested bodies who request them. It is important that information on the EEC be made available to customers, including how the supplier is meeting its target and how consumers can benefit.

Auditing

- 5.7 Each licensee shall be audited on a sample of schemes.
- 5.8 The basic auditing requirements are expected to be;
- Cross checking the quarterly progress reports
 - Ensuring the priority group has been targeted
 - Seeking evidence on cost contributions
 - Seeking evidence of the numbers and types of measures installed.
 - Seeking evidence that the customer and quality monitoring requirements have been met (and acted upon where necessary).
- 5.9 The results of each audit will then be compared to the quarterly and completion data submitted to Ofgem by the supplier.

Scheme reporting

Completion reports

- 5.10 Once a supplier has completed a scheme they will be required to notify Ofgem by submitting a completion report. This report will outline the actual types and numbers of measures installed and in which property types. Suppliers will also be required to comment upon the actual methodology of the scheme.
- 5.11 It is likely that suppliers will set up large, generic schemes under the EEC. Ofgem is proposing to allow a supplier to 'bank' those savings achieved under a scheme. Once a convenient point had been reached in the delivery of the scheme, suppliers can notify Ofgem of the work completed up until that point. The relevant energy savings can then be 'banked.' This would save suppliers waiting until the end of the project / Commitment before notifying Ofgem of

completion. Customer satisfaction and quality assurance data for the entire scheme would then follow.

Monitoring

- 5.12 Ofgem will set minimum monitoring requirements to be fulfilled for each scheme. Compliance shall be checked through audit.

Customer satisfaction monitoring

- 5.13 Customer satisfaction monitoring should be undertaken by suppliers to achieve a 5% minimum sample response from the properties receiving measures under each scheme. Customer satisfaction surveys enable suppliers to monitor recipients' views on the measures received and the delivery / installation of the measures and identifies any potential areas of concern. For CFL schemes, suppliers should survey 1% of recipients as these schemes tend to be on larger scale.

Quality assessment monitoring

- 5.14 Requirements for quality monitoring were previously set out in the Energy Efficiency Standards of Performance Operations Manual⁷, devised by the EST for Ofgem. These requirements ensured that work under EESoP was carried out to high standards and conformed to approved British Standards.
- 5.15 Under the EEC, Ofgem expects suppliers to continue to survey and report upon the quality of installation of insulation or heating measures to a minimum of 5% of a project. This is to ensure that consistent and satisfactory standards of safety and quality have been achieved for the work undertaken. Suppliers should adopt appropriate quality standards with their managing agents, installers and other suppliers before commencing projects. These must comply with current health and safety standards/legislation as well as meet current European and Industry Standards.
- 5.16 Ofgem will require suppliers to report to Ofgem at the end of a scheme to confirm that this requirement has been fulfilled.

⁷ Energy Efficiency Commitment 2000 – 2002 Operations Manual, Issue 4, June 2001
Office of Gas and Electricity Markets

- 5.17 Ofgem plans to revise the existing Operations Manual for the beginning of the Commitment. This will provide technical details on the monitoring requirements, including a list of approved CFLs and cold appliances, and offer guidance on all aspects of compliance with the EEC.

England, Scotland and Wales

- 5.18 The Government expects suppliers to seek to achieve energy benefits in England, Scotland and Wales in proportion to the number of domestic customers in each country. An effective way of monitoring the level of activity in each country could be to require suppliers to submit the results of their completed schemes to the Homes Energy Efficiency Database (HEED), maintained by the EST. As the HEED stores information at a house-by-house level, it would be able to derive the level of activity in each country. Ofgem strongly encourages suppliers to submit this information to the HEED.

Compliance

- 5.19 The Energy Efficiency Commitment is a relevant requirement within the meaning of section 25 of the Electricity Act 1989 and section 28 of the Gas Act 1986 and is subject to the imposition of a financial penalty for breach i.e. failure by a supplier to provide evidence of their compliance with the Energy Efficiency Commitment by the specified date. Such a failure will occur when the combined energy savings from a supplier's schemes, the net effect of any traded energy savings and the energy savings from measures carried out under EESoP 3 but brought forward to the EEC are insufficient to meet that supplier's obligation for any reason.
- 5.20 Ofgem will decide whether to impose a financial penalty where the Authority is satisfied that a supplier has contravened or is contravening the EEC. Any such decision will be subject to the current Statement of Policy with respect to Financial Penalties and will follow the current process for dealing with financial penalties. Both the Statement of Policy and The Process, which were published in April 2001, are available on Ofgem's website, www.ofgem.gov.uk.

6. Trading

Trading energy savings between suppliers

- 6.1 **Ofgem will be responsible for overseeing trading arrangements between the suppliers and recording transactions.**
- 6.2 To enable the energy suppliers to meet their energy efficiency targets in the most cost-effective way DEFRA has proposed that suppliers can trade their targets or accredited savings. This will allow suppliers that are finding it difficult to find cost-effective measures to buy energy savings from another supplier. Ofgem will be responsible for overseeing the trading arrangements and monitoring the savings that have been transferred to another supplier.
- 6.3 As set out in DEFRA's draft Statutory Instrument, trading is subject to the written agreement of Ofgem. Suppliers should therefore notify Ofgem of all proposed trades. If Ofgem agrees that the trade should go ahead it will provide written notification within ten working days. Parties to a trade will be required to provide a copy of the final agreement to Ofgem. Ofgem will keep a record of the amount of energy savings to be transferred and the proportion of energy savings to fall into the priority group.
- 6.4 Ofgem expects that the trading of targets should include achieving the necessary energy savings and fulfilling all the monitoring requirements. In annual reports the supplier contracted to meet the additional target should report on their own obligation as well as the additional target. In order to comply with its obligation, a supplier should produce an annual report as outlined in paragraph 5.5 above, even where it has traded its complete target.
- 6.5 Where a supplier trades its target to another supplier, that company becomes responsible for meeting the target and complying with the legislation.

Trading on the national emissions trading scheme

- 6.6 **The Government proposes that increases in household energy efficiency achieved by individual suppliers and additional to the level required under the Energy Efficiency Commitment could potentially be sold into the UK emissions trading scheme, on the basis of the carbon dioxide savings delivered.**

However, it will not be possible for suppliers to buy energy savings from the emissions trading scheme. Before it can be confirmed whether suppliers will be able to sell their excess carbon savings onto the national scheme, and how this will be done, the final details on the UK's emissions trading scheme will have to be finalised.

- 6.7 The rules for participation in the emissions trading scheme are due to be published later this year with trading starting in 2002. As DEFRA highlight, further work on the mechanisms involved in participation is needed before suppliers can sell carbon emissions saved as a result of their actions on to the emissions trading market.
- 6.8 In any event, before a supplier sold emissions savings onto the national programme it would need to reassure Ofgem that the savings were additional to those required under the EEC.

Appendix 1 Scheme submission pro forma

A1.1 The following table details the suggested submission pro forma to detail the methodology of a scheme. Italics indicate notes for completion.

Energy Efficiency Commitment Scheme Submission	
Date	<i>Date of submission</i>
Scheme Code	<i>Format e.g. SCOT001A0402 (company/scheme/measure/date)</i>
Project title	<i>Brief name of scheme</i>
Company	<i>Company submitting the scheme</i>
Project Manager/Contact	<i>Relevant contact at company</i>
Energy Savings	<i>Estimated energy savings</i> GWh
Relevant Licence	<i>The licence(s) to which the savings will count.</i>
Timescale	<i>Expected start and end dates of project</i>
Project description	<i>Brief project description (what is being offered, whom to, how and with whom?)</i>
Types of measures	
Households benefiting	<i>By tenure (mainly for insulation measures)</i>
Promotion and marketing	<i>How will the measures be offered and to whom?</i>
Location	<i>Where the project is expected to be marketed and carried out</i>
Managing agent	<i>Who will be the managing agent and how they were selected</i>
Project partners	<i>Details of any other project partners and how were they selected</i>
Priority group	<input type="text"/> %
Justification	<i>Justification for percentage of recipients expected to be within the priority group.</i>
Retail Schemes only	<input type="text"/> <i>Level of sales in previous year, numbers of units</i>
Justification	<i>Source of evidence of the level of sales.</i>
Additional information	<i>Any other information relating to the scheme and how it conforms to the legislation.</i>
Authorised signatory	<i>(Ofgem will accept submissions via email but also expects suppliers to send a signed hard copy).</i>

Appendix 2 Suppliers' licence obligations, and current Ofgem initiatives, on energy efficiency advice

A2.1 Suppliers are obliged by their licences to provide energy efficiency advice. The provision of effective advice will be one means by which suppliers can target customers eligible for EEC schemes, as well as other grants such as HEES. As described below, Ofgem is particularly concerned to ensure that energy advice plays an effective role in the reduction of fuel poverty.

Codes of Practice

A2.2 Under their licences, electricity and gas suppliers have to publish Codes of Practice setting out the ways in which they will provide guidance to their customers on the efficient use of gas and/or electricity. The Codes have to include:

- practical information and advice for customers on steps they can take to improve energy efficiency;
- sources of additional information, including a telephone information service maintained by the company;
- information on financial assistance available towards the cost of energy efficiency measures;
- suppliers also have to provide information on energy efficiency to customers in debt.

A2.3 The Codes have to be approved by Ofgem, following consultation with energywatch. The licences require that guidance is given or prepared by a suitably qualified person. Currently, Ofgem regards a certificate in Energy Awareness from the City and Guilds Institute as appropriate. Under their licences, electricity and gas suppliers are required to provide Ofgem and energywatch each quarter, and publish annually, information on their compliance with their Codes of Practice.

Research under the Social Action Plan

A2.4 Ofgem has identified energy efficiency advice as one of seven priority areas for research under the Social Action Plan. Research has been funded by the Electricity Association, and undertaken by Dr Brenda Boardman and Sarah Darby of the Environmental Change Institute at Oxford University. Their report, entitled 'Effective Advice: Energy efficiency and the disadvantaged', was published in January 2001. The research covered advice from all sources, not just energy suppliers. It found that the provision of energy efficiency advice to low income customers has failed to make much impact, and that much more needs to be done if energy efficiency advice is to make the necessary contribution to delivery of the Government's fuel poverty targets. The report estimates that no more than five per cent of disadvantaged households currently receive effective energy efficiency advice from any source each year.

A2.5 The report concludes that effective advice to the disadvantaged would have some or all of the following characteristics:

- seeking out potential clients and offering a free phone service;
- offering home visits where needed;
- having information on grants from all sources and assisting customers in applying for them;
- having well-trained and experienced staff;
- using bills as a source of information and feedback;
- viewing advice as an interactive process involving raising awareness, giving advice, and follow up, in which dialogue is necessary and productive;
- networking with trusted agencies who are responsible for visiting people in their homes, and training such frontline workers to target those needing advice and identify fuel poverty;
- providing follow up visits or phone calls as needed;
- helping customers who have difficulty with seeing, hearing, mobility, literacy and numeracy.

A2.6 Ofgem hosted a 'Summit' on 16 July 2001 bringing together suppliers and other advice providers, including Energy Efficiency Advice Centres, together with DTI, DEFRA and Energy Saving Trust, to consider these and other issues concerned with the provision of advice to the fuel poor. There was broad agreement on the desirability of instituting good practice as outlined above. However, concern was raised that home visits, although desirable, were very costly to provide. Suppliers saw little incentive to do additional work without some form of return or incentive. Among other concerns, the importance of reaching customers with literacy and numeracy difficulties was stressed, as well as the need to co-ordinate effectively the provision of advice with grants, and the need for effective follow up and monitoring of advice.

Energy Efficiency Partnership for Homes

A2.7 There is growing recognition of the need for a mechanism to enable all parties with an interest in energy efficiency and in combating fuel poverty to work together. The Energy Efficiency Partnership for Homes, which is facilitated by the Energy Saving Trust with support from DEFRA, aims to create a framework for doing this. The Energy Advice Providers Group of the Partnership is undertaking work in two areas: the benefits of providing energy advice, and setting minimum standards for the provision of energy advice. This work is being undertaken after consultation by the Partnership with the energy advice sector, and representatives of fuel suppliers are involved in the Group. Ofgem welcomes the work of the Energy Advice Providers Group. We regard it as important to work with advice providers both within and outside the electricity and gas industries.

Further work by Ofgem

A2.8 Ofgem will be taking the following further steps to improve the provision of energy efficiency advice. We will be supporting the work of the Energy Efficiency Advice Providers Group. We will also be undertaking more thorough monitoring of suppliers' advice provision to understand better the uptake and quality of advice being provided. A report on the results of monitoring work will be published in the first quarter of 2002. These activities are expected to increase the quality and reach of energy advice.

Guidelines

A2.9 We also believe that suppliers will benefit from guidelines, distilling best practice in the provision of advice to the fuel poor. Operation of guidelines should assist suppliers in the identification of fuel poor customers who can benefit from assistance under the EEC and HEES.

A2.10 As a first step, we have identified the following actions for inclusion in guidelines:

- Frontline workers who deal with households, either on the telephone in call centres, or in the home (for example when reading meters or undertaking debt visits), should have a minimum level of energy awareness, to enable them to alert relevant customers to the availability of energy efficiency advice and grant assistance. Suppliers should consider providing suitable basic training to staff;
- Suppliers are encouraged to 'network' with agencies in contact with customers in their homes, e.g. health workers, who can alert them to the help available;
- Suppliers should be alive to 'symptoms' of fuel poverty. These include indebtedness, high fuel bills, and evidence of self-disconnection. Use of fuel direct will indicate customers who may be eligible for HEES or within the priority group for the EEC;
- Suppliers should operate systems for following up advice, to ensure the recommended action has been understood and taken. Follow up will enable suppliers to monitor the effectiveness of their advisory services;
- Suppliers should ensure the needs of customers with limited literacy or numeracy skills, or those who have difficulty with English, are taken into account. This may involve liaison with agencies who specialise in working with specific ethnic groups;
- Where appropriate, the provision of energy advice should be supplemented to include advice on benefits take-up, to assist customers in maximising income. Customers should also be advised on the option of an alternative

tariff, e.g. switching from prepayment to direct debit, where this would be a suitable option.

A2.11 These actions are already adopted by some suppliers, but Ofgem would like to see a more systematic approach to these matters. Views on the above will be invited by Ofgem as part of a separate exercise. The guidelines will be developed further in the light of work in the Energy Efficiency Advice Providers Group and progress on monitoring.