

Energy Efficiency Commitment Administration Procedures

December 2001

Summary

The Electricity Act 1989 and Gas Act 1986, as amended by Sections 70 and 99 of the Utilities Act 2000 and Section 103 of the Utilities Act 2000, make provision for energy efficiency obligations to be set for electricity distributors and suppliers and gas transporters and suppliers by the Secretary of State for Environment, Food and Rural Affairs. The Electricity and Gas (Energy Efficiency Obligations) Statutory Instrument 2001 came into force on 15 December 2001. This Statutory Instrument, resulting from the consultation on the Energy Efficiency Commitment 2002-2005, sets out the framework for the obligation in relation to electricity and gas suppliers. It is Ofgem's duty to administer this programme, to be known as the Energy Efficiency Commitment (EEC).

Ofgem published its Energy Efficiency Commitment administration procedures consultation document in September 2001. Responses have been received from 23 organisations and are summarised in Appendix 2. Discussions have also been held with the Department for Environment, Food and Rural Affairs, the Energy Saving Trust, energy suppliers and other organisations. This document outlines the administrative procedures for licenced suppliers' compliance under the EEC, having taken account of the comments received.

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

All energy supplier groups with 15,000 or more domestic customers have an obligation to achieve improvements in energy efficiency. Suppliers will be required to meet this target by encouraging or assisting domestic customers to take up energy efficiency measures in homes. At least 50% of the energy savings must be targeted at customers receiving certain benefits or tax credits.

Ofgem is required to carry out a number of determinations in the course of administering the EEC. First, Ofgem is required to determine the energy efficiency targets for each gas or electricity supplier on whom obligations are imposed by the Order. Ofgem will adjust each supplier's target each year of the EEC. Second, Ofgem is required to determine whether any proposed action qualifies for the purpose of achieving the whole or any part of a supplier's energy efficiency target; and, if so, what improvement in energy efficiency is to be attributed to the proposed action, or to any

result of that action specified in the determination. Suppliers will submit schemes for approval and through this Ofgem will determine which actions qualify. Determination of energy savings will be based on information collected from recognised sources. Ofgem will collect data on the measures actually installed in 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.

The Energy Efficiency Commitment is a statutory requirement on supply licensees. These administration procedures are designed to allow Ofgem to assess projects on a scheme by scheme basis as well as set up on-going monitoring of each supplier group's progress against their target.

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1. Introduction

Purpose of this document

- 1.1 The Electricity Act 1989 and Gas Act 1986, as amended by Sections 70 and 99 of the Utilities Act 2000 and Section 103 of the Utilities Act 2000, make provision for energy efficiency obligations to be set for electricity distributors and suppliers and gas transporters and suppliers by the Secretary of State for Environment, Food and Rural Affairs. The Electricity and Gas (Energy Efficiency Obligations) Statutory Instrument 2001 came into force on 15 December 2001. This Statutory Instrument, resulting from the consultation on the Energy Efficiency Commitment 2002-2005, sets out the framework for the obligation in relation to electricity and gas suppliers. It is Ofgem's duty to administer this programme, to be known as the Energy Efficiency Commitment (EEC).
- 1.2 Ofgem published its Energy Efficiency Commitment administration procedures consultation document in September 2001. Responses have been received from 23 organisations, as listed in Appendix 1, and are summarised in Appendix 2. Meetings have been held with suppliers who have a target under the current Energy Efficiency Standards of Performance and suppliers expected to receive a target under the EEC. Discussions have also been held with the Department for Environment, Food and Rural Affairs (DEFRA), the Energy Saving Trust (EST) and other relevant organisations. This document outlines the administrative procedures for licensed suppliers' compliance under the Energy Efficiency Commitment.

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 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. This is recognised through the changes in the Utilities Act 2000, which allow for an overall energy efficiency target to be set by DEFRA.
- 1.6 Each supplier covered by the legislation governing the EEC will be required to meet an energy saving target. It will be required to meet this target by encouraging or assisting the installation of energy efficiency measures in homes.

A review of Ofgem's duties under the EEC

- 1.7 The Utilities Act 2000 and the Energy Efficiency Statutory Instrument empower Ofgem to administer the suppliers' energy efficiency obligation. The key aspects of Ofgem's remit include:

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, November 2001, DEFRA and DTI

- determining each suppliers' target,
- determining whether the action proposed qualifies for the purpose for achieving the whole or any part of a supplier's energy efficiency target,
- determining any improvements in efficiency to be attributed to the proposed action or to any result of that action specified in the determination,
- requiring suppliers to provide information about their proposals in relation to compliance, for example energy and carbon savings achieved by the total activity or scheme,
- providing written agreement where appropriate to a supplier to treat qualifying action taken by another supplier as achieving the whole or any part of its target,
- providing written agreement where appropriate to a supplier to transfer the whole or any part of its target to another such supplier,
- reporting to the Secretary of State for Environment Food and Rural Affairs annually,
- determining whether a supplier has failed to comply with relevant requirements.

1.8 Ofgem is required to carry out a number of determinations in the course of administering the EEC. First, Ofgem is required to determine the energy efficiency targets for each gas or electricity supplier on whom obligations are imposed by the Order. Ofgem will adjust each supplier's target each year of the EEC. Second, Ofgem is required to determine whether any proposed action qualifies for the purpose of achieving the whole or any part of a supplier's energy efficiency target; and, if so, what improvement in energy efficiency is to be attributed to the proposed action, or to any result of that action specified in the determination. Suppliers will submit schemes for approval and through this Ofgem will determine which actions qualify. Determination of energy savings will be based on information collected from recognised sources. Ofgem will collect data on the measures actually installed in each scheme to determine the actual energy saving achieved.

- 1.9 Section 2 of this Administration Procedures document provides details on the target setting process. Section 3 sets out the scheme submission process with Section 4 detailing the required monitoring for schemes. Finally Section 5 outlines the methodology for trading energy savings and targets in the Energy Efficiency Commitment.
- 1.10 This administration procedures document is intended to be a working document. Ofgem shall review the procedures as the EEC develops and as relevant new policy comes into effect such as the emissions trading scheme.

2. Target setting

The overall target

- 2.1 DEFRA has set suppliers a total target of 62 TWh of fuel-standardised energy savings to be met in efficiency improvements from April 2002 to March 2005. The illustrative mix of measures used to derive this target is set out by DEFRA on its website, <http://www.defra.gov.uk/environment/energy/eec/index.htm>. Ofgem shall be responsible for dividing the overall EEC obligation between suppliers in accordance with the apportionment curve in the Statutory Instrument.

Companies covered by the Energy Efficiency Commitment

- 2.2 Ofgem will determine the overall EEC obligation according to supplier group customer numbers. All supplier groups with 15,000 or more domestic gas or electricity customers will have a target.
- 2.3 All licensed suppliers will be required to provide, by 10 January, their domestic gas and domestic electricity 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. The targets will provisionally be set in January 2002 and then adjusted according to customer numbers on 31 December 2002 and 31 December 2003 in January 2003 and 2004 respectively.
- 2.4 As defined in the Statutory Instrument, a domestic customer is “a consumer to whom electricity or gas is supplied at domestic premises in any part of Great Britain (GB).” Where electricity or gas is supplied to a consumer at both domestic and non-domestic premises, the consumer will be classed as a domestic customer only at the domestic premises.
- 2.5 All licensed suppliers will also be required to explain their company group structure. The supplier group includes any holding company or subsidiary of the supplier with GB customers. In line with the legislation, targets will be set separately for gas and electricity. Ofgem will then add together each of these targets for each supply group.

Table 1: Timetable for setting and adjusting energy efficiency targets

| Date of customer numbers | Suppliers provide customer numbers | Ofgem sets targets | Target status |
|--------------------------|------------------------------------|--------------------|--------------------|
| 31 December 2001 | by 10 January 2002 | by 31 January 2002 | Provisional target |
| 31 December 2002 | by 10 January 2003 | by 31 January 2003 | Adjusted target |
| 31 December 2003 | by 10 January 2004 | by 31 January 2004 | Final target |

2.6 Targets will be set and adjusted according to the following rules.

- A supplier group with less than 15,000 domestic customers on the 31 December 2001, 2002 and 2003 will not have a target.
- A supplier group with at least 15,000 domestic customers on the 31 December 2001, 2002 and 2003 will have a target based on the average of these three customer numbers.
- A supplier group that exceeds 15,000 domestic customers only on one of the above dates, will have their target based on a third of their customer numbers on that date, even if this falls below 15,000 customers. The supplier will be subject to a target from that year until the end of the EEC. This is illustrated in table 2.
- 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 the averaged customer numbers on the two dates, even if this falls below 15,000 customers. The supplier will be subject to a target from this year until the end of the EEC. This is illustrated in table 3.

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 | $(15,000 + 18,000)/2 \times 2/3$ |

2.7 The model for target setting is set out in the Statutory Instrument and imposes progressively tighter targets for companies of increasing size. In order to apportion the overall target of 62 TWh, each supplier group's customer numbers will first need to be adjusted. These 'EEC-adjusted' customer numbers will then be used to divide up the overall target between the suppliers. The 15,000 domestic customer number target threshold will apply to actual, not adjusted, customer numbers.

2.8 For example, a supplier with 100,000 domestic customers will have an 'EEC-adjusted' customer number of 74,674, whereas a supplier with 1,000,000 domestic customers will have an 'EEC-adjusted' customer number of 869,951. The linking of domestic 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 Statutory Instrument):

$$A = N \times (8.94 + \ln(N / (1 + 0.00008 \times N))) / 18.1284$$

Where:

A is the adjusted number

N is the supplier's customer numbers

Ln is the natural logarithm

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

| No. of domestic customers | 'EEC-adjusted' customer numbers |
|---------------------------|---------------------------------|
| 15,000 | 9,637 |
| 50,000 | 35,436 |
| 100,000 | 74,674 |
| 1,000,000 | 869,951 |
| 15,000,000 | 14,701,286 |

- 2.9 As stated in the Statutory Instrument, all licensed suppliers should inform Ofgem in writing if their domestic customers fall below, or rise above, the 15,000 threshold at any time during the EEC. However, there will be no mid year adjustment of targets.
- 2.10 Suppliers will be able to use energy efficiency improvements from electricity, gas, coal, oil and liquid petroleum gas to meet their targets, as the target will be in fuel standardised units. Although the target will be set on a supplier group'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.

3. Scheme accreditation

- 3.1 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.
- 3.2 Suppliers will meet their obligation by setting up energy efficiency schemes. Projects must have regard to the criteria set out in the Statutory Instrument and comply with Ofgem's administration procedures. Each scheme must be submitted for approval by Ofgem to determine whether the scheme is regarded as qualifying action. This will also assist Ofgem in tracking a supplier's progress against its target.
- 3.3 EEC schemes can be submitted to Ofgem once the targets have been set on 31 January 2002.

Carry-over of EESoP 3 savings

- 3.4 Suppliers with an EESoP target will be able to carry-over excess EESoP 3 action towards their EEC target. This amount should not count for more than 10% of the supplier's EEC target. Excess 'action' will be classed as the excess energy efficiency measures actually provided and not the energy savings achieved under EESoP 3.
- 3.5 Ofgem is responsible for recording each supplier's actions and the resultant energy and carbon savings to be transferred into the EEC. The Statutory Instrument states that suppliers must gain written agreement from Ofgem before carrying-over EESoP 3 savings.
- 3.6 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 established EESoP rules. All EESoP schemes must be submitted to the EST and Ofgem for approval by 31 January 2002 and must be in the public domain by the end of March 2002. If such a scheme exceeds 25% of the approved energy savings, the supplier should contact the EST, as under the usual EESoP rules.

- 3.7 Once the relevant EESoP completion and monitoring requirements have been fulfilled (by March 2003), the surplus measures can be identified. As the accreditation of energy efficiency measures differs between EESoP3 and the EEC, surplus measures will gain the relevant EEC savings, as set by Ofgem. These measures will then be banked under EEC.
- 3.8 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.

Scheme approval

- 3.9 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 substantial 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.
- 3.10 Suppliers must complete two submission pro formas for each EEC scheme and submit them to eec@ofgem.gov.uk. The first details the types and numbers of measures planned and therefore the expected energy savings. Suppliers must fill in a separate table for each fuel type covered by the scheme. The second pro forma provides a written description of the scheme methodology. Appendix 3 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 1 February 2002. Further information may be requested where deemed appropriate, for example where a new measure is used.
- 3.11 To enable Ofgem to cope with the large number of schemes for approval at the beginning of the EEC, a submission schedule has been devised and is included in Appendix 4. Ofgem will review the use of this schedule as the EEC develops.

- 3.12 Where the size of an approved scheme increases by more than 25% of the size of the submission, suppliers should inform Ofgem. This will ensure that Ofgem is kept informed of each supplier's work. At this time Ofgem will then consider whether the scheme should be resubmitted for approval.
- 3.13 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 considers that the scheme does not conform to the EEC framework. Ofgem recommends that suppliers' planning to undertake retail schemes or energy service schemes should submit them for approval before work commences.

Priority group

- 3.14 Suppliers are required to secure 50% of their energy savings from the 'priority group'. This is defined in the Statutory Instrument and includes households in receipt of defined benefits and tax credits. All scheme submissions shall be required to detail the expected priority group percentage and a justification for this estimate. This shall then be confirmed through completion reports.
- 3.15 Adequate justification will be required from suppliers on the level of energy savings being claimed from the priority group. Ofgem has set the following minimum requirements:
- Where a supplier works with a Local Authority or Housing Association, this third party must write to Ofgem detailing the proportion of residents in the priority group that are expected to benefit from measures. This should be confirmed at the end of the programme.
 - Where a scheme involves a home visit, for example installing insulation, installers should check that the occupant is in receipt of benefit.
 - 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. One option might be to include a questionnaire with the measure.

- For other schemes delivered by suppliers, such as mail order schemes, suppliers should ask on the initial response form whether the customer is on benefits or on the tax credits included in the priority group. If this is not feasible, Ofgem 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

- 3.16 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.'
- 3.17 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 approved sources; for instance the figures for insulation and condensing gas boilers will be obtained from the Building Research Establishment (BRE). As far as possible energy savings from measures will be calculated in the same way as DEFRA's illustrative mix of measures.
- 3.18 Ofgem's scheme submission pro forma sets out the standard energy efficiency measures and the energy saving attributed to them. These energy savings will not be altered over the course of the EEC. If any new standards are introduced for these measures which affect the energy savings, these will be assessed and classed as new measures.
- 3.19 Where a supplier wishes to employ a new or innovative measure, Ofgem will require that supplier to provide independent verification from a body accepted by Ofgem as being qualified to assess the savings. All innovative schemes should be submitted for pre approval. Ofgem may ask for additional information to accompany an application for a new measure.
- 3.20 Suppliers will be limited in the number of compact fluorescent lamps (CFLs) they can mail out to customers. Firstly, CFLs provided for free are limited to four per household. Where a cost contribution is made from the customer the limit is six CFLs. Suppliers must offer a choice of lamps, i.e. in packs of 2, 4 or 6 as well

as offering a choice of wattages to customers. Where the supplier wishes to have a scheme where the customer can choose to purchase 5 or 6 lamps these lamps must be sold for at least 50% of the purchase price from the manufacturer or for more than £1.50 each.

- 3.21 For schemes offering candle lamps it might be appropriate to increase the number of lamps, but this will be assessed on a scheme by scheme basis. Ofgem also requires suppliers to limit the receipt of a lamp offer from its own schemes during the course of the EEC to one per household.
- 3.22 Lamps that are delivered with another measure are limited to six, with the customer being offered a choice, as above, in the number of lamps taken.
- 3.23 Many of the respondents to Ofgem's consultation document questioned the level of loft insulation top-up, in relation to the new Building Regulations. Where appropriate Ofgem strongly encourages suppliers to provide top-up to 250mm for professional installations, to reflect these regulations, and to install lower levels where the higher level is not possible for technical reasons.

Energy services

- 3.24 DEFRA has provided an incentive for energy service schemes. Energy service schemes that conform to the definition in the Statutory Instrument will be accredited with an additional 50% of energy savings. This incentive will be limited to 10% of a supplier's overall target.
- 3.25 As set out in the Statutory Instrument, energy service schemes must include two qualifying measures. One of these measures must be insulation to the loft or the walls, a boiler or CHP. The energy service agreement also requires the supplier to undertake an assessment of the premises, provide relevant advice and offer customers the option of deferring payments for the measures.
- 3.26 The uplift for energy service schemes will be based on the measures installed in the home and not for the assessment of the property or the provision of advice to the consumer. An assessment of the property should ideally involve a home visit and could take place when the house is surveyed for measures. However, a telephone interview or sending a form to a household for the customer to complete will also be eligible for the assessment part of an energy service.

Suitable questionnaires are Do-It-Yourself Home Energy Checks (DIY HECs) or other similar telephone questionnaires. On-site property assessments could include more comprehensive audits such as SAP or National Home Energy Rating (NHER) surveys.

- 3.27 The provision of advice should follow the assessment of the property. Suppliers should advise on any suitable measures, to be funded through the energy service scheme. Further advice should then be offered relating to the measures provided as well as general energy efficiency advice. Advice offered to customers should conform to the minimum requirements of the Code of Practice on the efficient use of gas and electricity, supply licence condition 25.

Ensuring additionality

- 3.28 The illustrative measure mix used by DEFRA to set the overall EEC target predicts additional measures as well as including business as usual (deadweight) measures expected to be subsidised under the EEC. DEFRA requires suppliers to demonstrate clear additionality in each of the schemes they carry out.
- 3.29 In developing procedures for assessing and approving schemes, Ofgem must take account of deadweight. Schemes are assessed within the following categories. It is also important to take account of other energy efficiency programmes and efficiency standards.
- 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

- 3.30 Fridgesaver schemes, 'A' rated appliances, 'A' and 'B' rated boilers, heating controls, draught proofing and CFLs to the priority group are all considered to be 100% additional. Ofgem will therefore not monitor these schemes to assess deadweight.

Retail schemes

- 3.31 To assess retail schemes, suppliers must provide Ofgem with the level of sales of the relevant measure(s) before and after the promotion. Ideally, this level of sales should be from the previous year and the corresponding month or season.
- 3.32 Ofgem expects suppliers to achieve a minimum level of additionality of 20% per scheme, based upon these previous sales. Suppliers will be able to negotiate this level on a scheme by scheme basis, either at approval stage or at scheme completion. This reflects the fact that a range of factors, outside the supplier's control, might affect the outcome of a retail scheme.

Other delivery mechanisms

- 3.33 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.
- 3.34 Because of the scale of the EEC, and the inclusion of deadweight in the target, there is concern that suppliers might, through no fault of their own, subsidise work of a third party without stimulating any additional measures. In working with third parties, such as Local Authorities, Ofgem requires written notification from the third party that the supplier's contribution is additional. This notification should detail the third party's original proposals, stating clearly the level of activity originally planned or carried out in similar schemes.

Links with other energy efficiency programmes

- 3.35 The EEC target does not include measures that have been funded through Warmfront or measures that have been wholly funded by a third party such as a local authority. Retrospective sales of energy efficiency measures will not count towards supplier's targets, including those measures counted towards supplier's EESoP 1, EESoP 2 and EESoP 3 targets. Neither will suppliers be able to count measures that have been carried out by another supplier, unless they have been traded.

- 3.36 DEFRA has made allowance for measures provided by Eaga under Warmfront. Suppliers can retrospectively purchase measures from Warmfront as long as Eaga uses this money to install additional energy efficiency measures.
- 3.37 Part L of the Building Regulations sets minimum standards of energy efficiency for new build and for some retrofit measures. To receive accreditation under the EEC, schemes should lead to energy savings additional to those required by the Building Regulations.

Adjusting the measure 'scores'

- 3.38 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 its consultation DEFRA decided not to proceed with this proposal.

Competition and marketing of schemes

- 3.39 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 EESoPs⁴. This guidance noted that any effects on competition are subject to the provisions of the Competition Act 1998. Ofgem plans to review this guidance, and update it where necessary, when the EEC commences.
- 3.40 Suppliers have freedom over whom they target and how they market their schemes, providing they do not contravene relevant competition and marketing legislation.
- 3.41 Ofgem encourages suppliers to publicise their schemes as widely and publicly as possible. One such way could be to send schemes to the EST for inclusion on the Grants Information Database (www.saveenergy.co.uk). This could ensure

⁴ Energy Efficiency Standards (2000 – 2002) Guidance to gas and electricity companies on competition issues, March 2001

that a supplier's work does not clash with similar work of other organisations, and could also promote alliances with third parties. Ofgem encourages suppliers to submit this information to the EST for inclusion in the database.

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

4. Monitoring and compliance

- 4.1 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 each supplier's progress.
- 4.2 DEFRA have indicated that Ofgem's July 2005 report should be for the third and final year of the EEC programme. This date for the final annual report is specified in the legal framework of the EEC. Accordingly supplier's June 2005 reports should be for the complete EEC programme.
- 4.3 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 supplier group to monitor compliance.

Quarterly progress reports

- 4.4 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 into measure category. This will enable Ofgem to track how suppliers are progressing towards their target and how the priority group has benefited. Ofgem shall provide a pro forma for suppliers to submit this information on.

Annual reporting

- 4.5 Suppliers shall be required to submit a draft version of their annual report to Ofgem on 31 May and the final version on 30 June 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.
- 4.6 Because the EEC is an energy saving target Ofgem does not anticipate collecting suppliers' costs for the programme.
- 4.7 The reports should be made publicly available. 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

- 4.8 Each supplier group shall be audited on a sample of schemes. The basic auditing requirements are expected to be;
- Ensuring the priority group has been targeted
 - Seeking evidence on the supplier's percentage cost contribution to the measures
 - 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).
- 4.9 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

- 4.10 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.

- 4.11 It is likely that suppliers will set up large, generic schemes under the EEC. Suppliers can 'bank' energy savings achieved under a scheme. Once a convenient point has 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.' Alternatively, suppliers can wait until the end of the entire project before notifying Ofgem of completion. Customer satisfaction and quality assurance data for the entire scheme would then follow.

Monitoring

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

Customer satisfaction monitoring

- 4.13 All measures involving installing measures and providing CFLs should be monitored. Ofgem will not prescribe procedures or minimum sample sizes for customer satisfaction monitoring for these measures. The supplier should provide full details of their chosen methodology to Ofgem upon scheme completion. Any results should also be outlined.
- 4.14 For DIY loft insulation schemes a minimum sample size of 5% should be monitored.
- 4.15 For new or innovative measures or other DIY schemes, an appropriate monitoring methodology will be agreed before scheme approval.

Quality assessment monitoring

- 4.16 Ofgem expects suppliers to ensure that EEC projects are carried out to high standards and conforms to recognised British Standards. This will continue the good practice established under the Energy Efficiency Standards of Performance. To assist suppliers, Ofgem has commissioned a technical guidance manual, similar to that produced under EESoP. Suppliers are required 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.

- 4.17 Quality assessment monitoring for DIY and innovative schemes will be determined on a scheme by scheme basis. For DIY schemes the level will not be more than for professionally installed measures.
- 4.18 Ofgem will require suppliers to report at the end of a scheme to confirm that this requirement has been fulfilled.

England, Scotland and Wales

- 4.19 The Government expects suppliers to seek to achieve energy benefits in England, Scotland and Wales in proportion to the number of their domestic customers in each country. Ofgem is required to monitor the level of measures provided to each country.
- 4.20 Suppliers will be given two options for reporting on this. Firstly, they can provide information on all their schemes to the EST's Homes Energy Efficiency Database (HEED). The EST will then summarise this information for Ofgem. Alternatively, suppliers will be required to detail the proportion of each type of measure going to each country in each scheme. This will be incorporated into scheme completion reports. Information submitted through the alternative methodology will be audited.

Compliance

- 4.21 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.

- 4.22 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.

5. Trading

- 5.1 Suppliers have the option of trading either energy savings from approved measures or trading their obligations to another supplier. The Statutory Instrument states that in either case a written agreement is required from Ofgem before a trade can occur. It is important that Ofgem is kept aware of all the trades that take place but given that all schemes have to be approved agreeing to trades is not expected to be time consuming and merely for the purpose of tracking energy savings.

Trading energy savings

- 5.2 Obligated suppliers are able to buy or sell energy savings from approved measures to each other under the EEC. Energy savings will be allocated to one supplier (first supplier) from another supplier (second supplier) in the trade. Ofgem will require details of the proportion of these savings met through the priority group.
- 5.3 The second supplier will be responsible for fulfilling any relevant monitoring and reporting requirements for the energy savings transferred.
- 5.4 Suppliers should provide the required information on the trade, i.e. the savings and the Priority group benefit, and then seek agreement from Ofgem before completing the trade.

Trading obligations

- 5.5 Suppliers also have the option to trade either their complete obligation or part of their obligation to another supplier. The supplier paid to meet the extra target will then be required to meet both the energy saving target and fulfil all other requirements for compliance.
- 5.6 Each supplier involved will be required to provide information on the trade, which will involve a written agreement from each supplier identifying who shall take on responsibility for meeting the supplier's obligation and the terms and conditions. It is imperative that the level of obligation to be traded is clearly stated, along with the proportion that will count towards the priority group.

Ofgem will then offer written agreement and adjust the targets of the suppliers involved accordingly.

- 5.7 If the suppliers involved in a trade want to change the contractual agreement, for example after an increase or decrease in the level of the traded obligation following adjustment in target on the 31 January 2003 or 2004, both parties to the trade should inform Ofgem in writing.

Trading on the national emissions trading scheme

- 5.8 It is expected that suppliers will have the option of trading excess energy savings onto the national emissions trading scheme as carbon savings. The rules and mechanisms for this shall be devised by DEFRA and Ofgem when the emission trading policy has been finalised.

Appendix 1 List of respondents to Ofgem's EEC Administration procedures consultation document

Age Concern England

Association for the Conservation of Energy (ACE)

British Gas Trading

Council for Energy Efficiency Development

Department for Environment, Food and Rural Affairs (DEFRA)

Eaga Partnership Limited

East Lindsey District Council

Electricity Association

Energy Efficiency Partnership for Homes

energywatch

Eurisol – UK Mineral Wool Association

Innogy

LE Group

National Association of Loft Insulation Contractors

National Energy Action

People for Action

Powergen

Public Utilities Access Forum

Scottish and Southern Energy Plc

ScottishPower

SEEBOARD

The Energy Saving Trust

TXU Energy

Appendix 2 Summary of responses to Ofgem's EEC administration procedures consultation document

- 2.1 Ofgem received 23 responses to the September 2001 Energy Efficiency Commitment Administration Procedures document including comments from energy suppliers, trade associations, consumer and environmental groups, public bodies and other interested parties. A full list of respondents is given in Appendix 1.
- 2.2 Overall, the consultation was well received with areas of concern limited to the accreditation of energy savings, the restriction of mail order CFLs and the reporting deadlines. Energy suppliers in particular welcomed Ofgem's intention to reduce the burden of regulation.
- 2.3 This appendix summarises the comments received and sets out the views of the respondents on the administrative procedures proposed in the September 2001 consultation document. Responses have been grouped under the following headings: Target setting, Scheme submissions, Qualifying measures, Competition and marketing of schemes, Monitoring and compliance and Trading.

Target setting

- 2.4 All of the respondents agreed that the methodology used to apportion the target between the obligated suppliers should be fair and that no supplier should be disadvantaged as a result. Several respondents drew attention to the fact that companies with multiple supply licenses, due to mergers or acquisitions, would have a lower target than a company with similar customer numbers with a consolidated licence. In general, apportioning the target based on company size was considered reasonable.
- 2.5 There were conflicting opinions about the benefits of using EEC adjusted customer numbers to set progressively tighter targets for companies of increasing size. Energy suppliers and public bodies in favour of the Relevant Adjustment Factor argued that larger suppliers will have additional leverage in the market place, including increased purchasing efficiency, and this should be reflected in their targets. Additionally, indirect costs will represent a larger proportion of a

smaller supplier's spend raising the average cost of EEC scheme delivery compared to larger suppliers.

- 2.6 In opposition, one supplier was reluctant to accept that there would be any significant economies of scale once a company has 2 million customers and suggested that a banded approach should replace the adjustment factor curve.

Scheme submissions

- 2.7 There was overwhelming support for allowing schemes to start from the 31st January 2002 and for excess EESoP 3 action to count towards the EEC target. More specific responses included:

- The one-month scheme approval procedure should be strictly adhered to.
- Contingencies should be put in place to deal with the high level of scheme submissions at the beginning of EEC to prevent any delay in scheme approval.
- After the initial quarter, the scheme submission schedule should be less restrictive with no specific monthly submission date.
- Prior to 31st January 2002, Ofgem should publish clear qualifying criteria for EEC schemes to minimise the possibility of a scheme being rejected after implementation. The guidance should include specific measures together with the acceptable standards of installation, particularly for energy services and retail schemes.

Qualifying measures

- 2.8 Several respondents expressed concern about the implications of the new part L of the Building Regulations. Comments focused primarily upon loft insulation with opinions on the required thickness split. Several energy suppliers argued that a range of thicknesses should be permitted to allow installation in a wide range of properties and to facilitate EESoP 3 carry-over. Trade associations stressed that both virgin and top-up installations should be to 250mm in line with the Building Regulations for new houses. All respondents agreed that Ofgem should be responsible for defining the standard. There was strong

opinion that external wall insulation should also be encouraged to improve the efficiency of the solid wall property stock.

- 2.9 It was suggested that for condensing boiler schemes, where the efficiency of both the new boiler and previous boiler are known, energy savings should be accredited on an individual basis. In the case of back boiler replacements, as the new Building Regulations state that the minimum requirement for replacement back boilers is 3% less than the conventional equivalent - 75% - the savings accredited should be from 75%. This would provide extra savings, which would compensate for the extra installation costs incurred.
- 2.10 Respondents expressed concern that the energy savings per measure would not be altered during the course of EEC. Comments focused upon the energy savings for insulation which are highly likely to improve during EEC due to forecasted changes in the building regulations and European requirements.
- 2.11 There was a strong consensus that the final accreditation methodology adopted by Ofgem must correspond completely with DEFRA's target setting model to ensure that EEC can be delivered within the assumed cost per customer.
- 2.12 Throughout the responses from environmental and consumer groups, energy advice was considered an important aspect of the Commitment. In particular, Ofgem should encourage the use of community development techniques to raise energy awareness amongst consumers, particularly those vulnerable, hard-to-reach groups with limited literacy or numeracy skills. It was considered imperative that frontline workers should be given energy advice training.
- 2.13 With regard to new and innovative measures, one respondent requested a specific procedure for attaining independent verification of the energy savings.

CFLs

- 2.14 There were strong opinions for and against limiting the number of CFLs mailed out by suppliers to three. Two respondents strongly favoured the limit to prevent household storage of CFLs. Arguments against the limitation focused upon practicalities of postage and the fact that DEFRA have already assumed that the lamps distributed by suppliers will be used in low use fittings. The customer

should be given choice on number, type and wattage of CFLs to prevent bad customer service.

2.15 There was also a strong reaction against limiting the offer of CFL schemes to one per household. Reasons included:

- If a householder did not take advantage of the initial offer, then there should be no reason why another approach should not be made.
- Offers for CFLs frequently appear in leaflets sent with a regular gas/electricity bill and it would be impractical to avoid repeat offers to a large number of customers.
- As suppliers are not restricted to providing measures to their own consumers, there is no way of ensuring that any householder is approached only once. Customers can receive offers from all suppliers under EEC so there should be no restrictions upon the host supplier.

Deadweight

2.16 Several suppliers and trade associations suggested that condensing boilers and priority group CFLs should be added to the list of 100% additional schemes. There was an objection to the decision not to monitor deadweight for 100% additional schemes claiming that the information would be valuable for future energy efficiency programmes.

2.17 For schemes involving energy suppliers working with Local Authorities or Regional Social Landlords, it was proposed that the level of additionality should be proved through documented evidence, i.e. a copy of the housing provider's plans.

2.18 There was a spectrum of views regarding the accreditation of deadweight in EEC retail schemes. There was some support for a minimum additionality level with suggested figures of 20% and 25%. Broadly speaking, energy suppliers opposed the idea of having to demonstrate additionality for each scheme stating that external market influences beyond their control could affect the level of sales. There was also concern that a failed retail scheme to which savings were not accredited could increase the cost of delivering the EEC by 10%.

2.19 Two suppliers questioned the relevance of the previous year's sales in cases where the retailer and product had been involved in an EESoP or EEC scheme. Several alternative accreditation methodologies were proposed:

- The contribution of deadweight towards a supplier's accredited savings should be aggregated over all schemes as opposed to a scheme-by-scheme basis.
- Full accreditation of a retail scheme should be awarded if the supplier can clearly demonstrate that every effort was made to achieve the sales anticipated at the start.
- Suppliers should only have to comply with the average deadweight proportion for each measure as presented in DEFRA's illustrative programme.

Competition and marketing of schemes

2.20 Collaboration between EEC and other national programmes was strongly encouraged although respondents emphasised that energy suppliers have had limited success working with HEES. It was suggested that if trading between EEC and Warmfront is to be allowed, the rules should be clearly defined in advance as TXU are both a HEES Managing Agent and a supplier retail competitor.

2.21 In general respondents were in favour of submitting data to the Home Energy Efficiency Database and, whilst two respondents argued it should be an obligation, energy suppliers felt they should be able to exercise discretion in the submission of data.

2.22 Informing consumers of the EEC via energy bills was considered effective, although due care should be exercised to ensure that pre-payment customers, who receive statements at much lower frequencies, are equally informed. One respondent felt that it would be difficult to indicate the cost of the EEC to the customer because it is not strictly a pass-through cost.

Monitoring and compliance

2.23 Ofgem stated that all EEC scheme monitoring reports should be submitted by 31st March 2006. Whilst five respondents considered this deadline unreasonable

and extremely difficult to meet, another respondent questioned the date stating that energy suppliers will actually be obliged to submit their third annual report by 31st May 2005. Suppliers argued that the deadline would deter complex projects, such as CHP and ESCOs, as the relevant data could not be collated in time. It was suggested that the deadline should be extended to 31st March 2007.

- 2.24 Similar comments were made about the annual report deadline. Energy suppliers would prefer to produce a draft report to Ofgem by 31st May with the final published version being made available by 30th June. One interested party requested that cost data should also be included in the annual reports.
- 2.25 Two respondents pushed for a summary of accepted and submitted schemes to be published on a quarterly basis to aid industry efficiency and capacity planning. The Energy Efficiency Partnership for Homes was suggested as an ideal vehicle for disseminating such information. It was also suggested that Ofgem could produce regular statement reports for each obligated supplier documenting their EEC actions and the resultant energy and carbon savings banked.
- 2.26 Energy suppliers registered several concerns about the collection of monitoring data. Three were against monitoring all customers who had not received a home visit to determine the proportion of priority group recipients. All suggested that monitoring a sample would be more appropriate. It was suggested that in mail-order schemes, a customer questionnaire could be incorporated into the ordering procedure. Completion data should relate energy efficiency improvements to both tenure and property type to help Local Authorities with their HECA reporting.
- 2.27 One respondent was keen to confirm that non-compliance penalties would not be a buy-out option for a supplier.

Trading

- 2.28 The ability to trade obligations or energy savings was widely welcomed. More detailed comments included:
- Unobligated energy suppliers should also be allowed to submit schemes and carry out measures in order to trade their resulting credits either with

companies who have EEC obligations or with the UK Emissions Trading Scheme.

- The amount of a target that can be traded should be limited to prevent a concentration of "buying power" distorting the market. Ofgem should consider both the historical performance of the acquiring company in meeting its obligations and any evidence of market distortions before sanctioning a trade.
- The framework and procedures surrounding the trading of savings should be transparent and the total cost of the measure including marketing should be covered in the trade.
- Savings and targets against vulnerable groups should be traded separately to targets against non-vulnerable groups.

Other comments

- 2.29 Several other comments were not necessarily relevant to Ofgem's duties in administering the EEC. One respondent suggested that Ofgem should advise energy suppliers to adopt an energy efficiency strategy in their business activities and to use energy efficiency as a marketing tool. Another suggested raising domestic energy charges to encourage energy efficiency amongst householders.
- 2.30 Several comments were aimed towards DEFRA's policy setting responsibility. One respondent questioned whether the cold appliance target was too ambitious with reference to the European Legislation on Ozone Depleting Substances, and the associated complications with appliance disposal, due to come into force in January 2002.

Appendix 3 Scheme submission pro forma

- 4.1 The following table should be used to detail the methodology when submitting 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 | | % |
| Justification | <i>Justification for percentage of recipients expected to be within the priority group.</i> | |
| Retail Schemes only | | <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 4 Scheme submission schedule

5.1 The table below details the timetable for the scheme approval process for the first year of the Commitment. The document may be open for review following an evaluation of its effectiveness during the first year.

| Month of schedule (2002) | Completed scheme submissions arrive at Ofgem (by post or e-mail) Action : Suppliers | Scheme submissions assessed Action: Ofgem | Ofgem liaises with suppliers regarding and 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 | Friday 1 st | Thursday 14 th | Tuesday 26 th | Thursday 28 th |
| March | Friday 1 st | Thursday 14 th | Tuesday 26 th | Thursday 28 th |
| April | Tuesday 2 nd | Monday 15 th | Thursday 25 th | Tuesday 30 th |
| May | Wednesday 1 st | Wednesday 15 th | Tuesday 28 th | Friday 31 st |
| June | Monday 3 rd | Friday 14 th | Wednesday 26 th | Friday 28 th |
| July | Monday 1 st | Friday 12 th | Wednesday 24 th | Wednesday 31 st |
| August | Thursday 1 st | Wednesday 14 th | Tuesday 27 th | Friday 30 th |
| September | Monday 2 nd | Friday 13 th | Wednesday 25 th | Monday 30 th |
| October | Tuesday 1 st | Monday 14 th | Thursday 24 th | Thursday 31 st |
| November | Friday 1 st | Thursday 14 th | Tuesday 26 th | Friday 29 th |
| December | Monday 2 nd | Friday 13 th | Friday 27 th | Tuesday 31 st |