

EEEC UPDATE

Issue 3 February 2003

Energy Efficiency Commitment key facts:

In the third quarter of the Energy Efficiency Commitment suppliers installed measures that will lead to over 5 TWh (Terra Watt hours) of energy savings. This is the first time suppliers have met the average installation rate needed to reach the overall target.



Charles Hargreaves (right) and Kate Smith update Callum McCarthy (middle) on supplier's progress in delivering the EEC

This is the third quarterly report on the progress of the Energy Efficiency Commitment (EEC), which began in April 2002. The Defra programme places an energy efficiency obligation on electricity and gas suppliers to be achieved by 31 March 2005.

The scheme has been set up to recognise the social benefits of energy efficiency and the contribution it can make to reducing carbon emissions from households. Suppliers are required to target at least half of the energy savings at the 'priority group' - households that receive income related benefits or tax credits.

Ofgem's role is to oversee suppliers' work by approving each scheme they set up and by monitoring progress. Suppliers provide quarterly reports to Ofgem to enable us to monitor the delivery of their schemes. The third set of these reports has now been received. The information presented in this report draws on both the

schemes and the quarterly reports that have been submitted to Ofgem.

Target setting

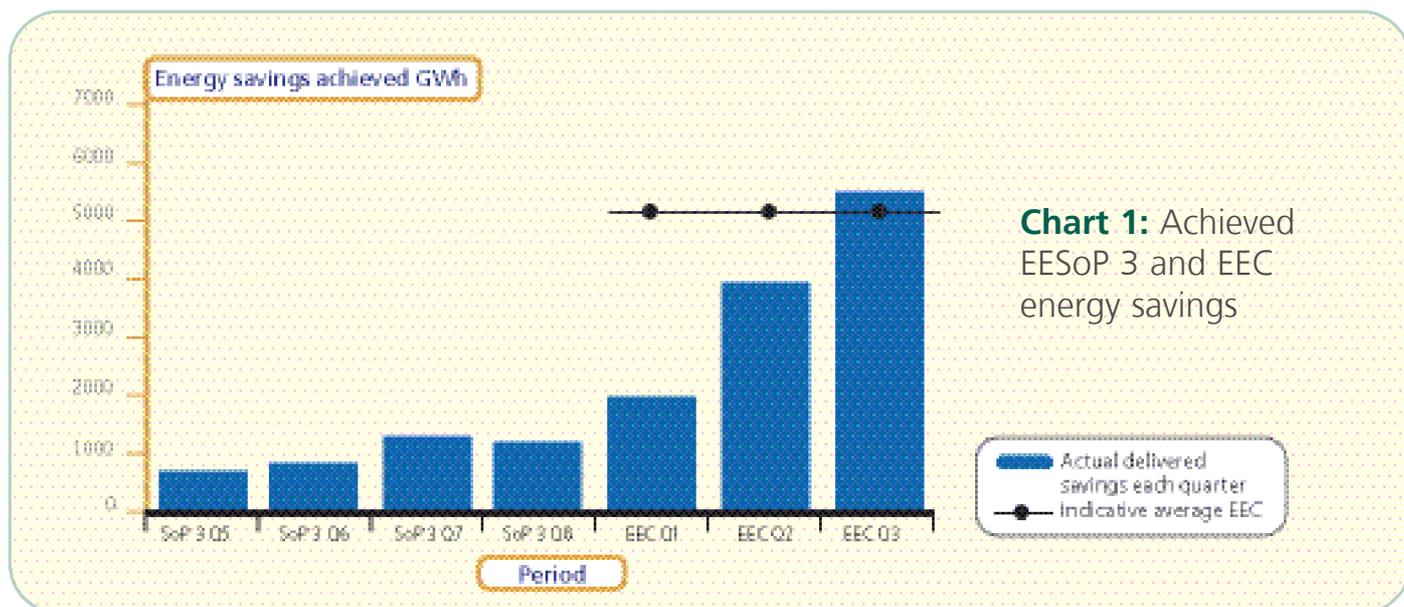
The overall EEC energy saving target, as set by Defra, is 62TWh. It is Ofgem's duty to set each supplier's target. This is done using the model in the statutory instrument, which apportions the 62TWh to suppliers in relation to their domestic customer numbers. Only suppliers with at least 15,000 domestic customers will be subject to a target.

Eleven suppliers were set a target in January 2002. These targets have now been revised in relation to current customer numbers. Because

there has been one new entrant to the programme this year and there has been merger and acquisition activity there are now 9 obligated supply companies. The following suppliers have a target under the EEC to be met by end March 2005:

Atlantic Electric & Gas, British Gas, Cambridge Gas, Energy Supplies UK, LE Group, npower, Powergen, ScottishPower and Scottish & Southern Energy.

The contact details for these suppliers are available at <http://www.ofgem.gov.uk/ee/links.htm> or by phoning Susan Pelmore.



Progress in delivering the EEC

Ofgem has received and reviewed the supplier's latest quarterly reports, detailing the schemes set up and the measures delivered up until the end of December 2002. This information shows that for the first time during the EEC suppliers have installed more energy efficiency measures than the average rate of 5 TWh per quarter.

Chart 1 shows the energy savings achieved each quarter for the final year of EESoP 3 and the first nine months of the EEC. The increase in measures delivered, and energy savings achieved, can clearly be seen in comparison with EESoP 3. By comparing quarter 3 in 2002 with the corresponding period the previous year, (2001, EESoP 3

quarter 7) it can be seen that the amount of energy savings delivered has increased almost fivefold.

To date, under EEC suppliers have installed or sold measures equating to 11,500 GWh energy saving. These energy savings will be realised over the lifetime of those measures and correspond to over 18% of the total EEC target of 62TWh. In the first six months of the EEC suppliers did not reach the 5TWh level, as suppliers were scaling up their energy efficiency work from EESoP 3. Consequently suppliers need to exceed this delivery rate of energy efficiency measures on average in the remaining quarters if the overall target is to be met.

Types of measures delivered

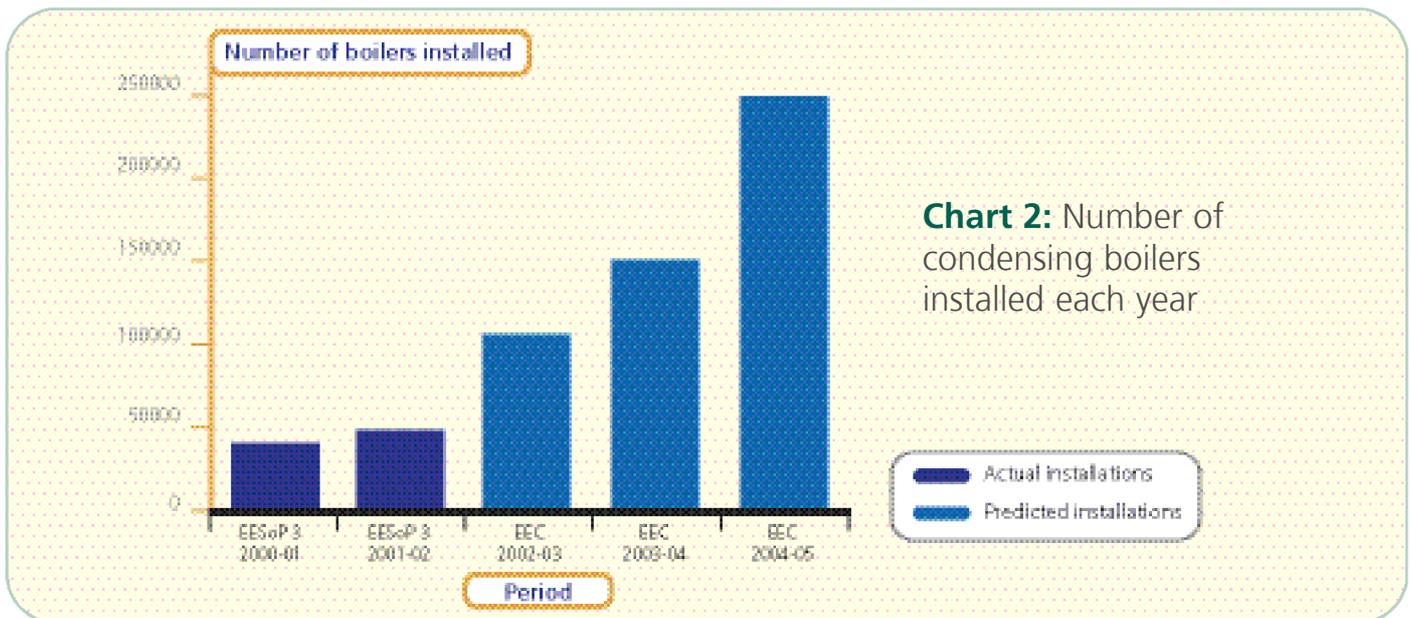
There has been little change in the types of energy efficiency measures delivered as a percentage of the overall energy savings. There has been some increase in the delivery of heating and insulation measures as we entered the winter period. This has been offset by a relative decrease in the take up of appliances and

lighting. Although suppliers are currently concentrating on standard measures, several schemes have been set up involving new heating technologies such as solar thermal collectors and heat pumps. Additionally, several suppliers have expressed an interest in CHP.

Condensing boilers

The Financial Times published an article on 7 January 2003 ('Green' boiler proves a retail phenomenon) regarding the increasing sales of condensing boilers. It stated that 2002 saw condensing boiler sales double to 150,000, 12% of the overall UK market. Ofgem has carried out some initial calculations which suggest that the three years of EEC could deliver over 500,000 condensing boilers, around a third of which may be delivered to the priority group. This is over 50,000 more installations than predicted in Defra's illustrative mix of energy efficiency measures, which was used to set the overall EEC target.

Chart 2 provides details on the number of condensing boilers delivered by suppliers during the EESoP 3 programme. Using information from the latest quarterly reports we have estimated the number of boilers expected to be delivered over each year of the EEC. We can see that many of the 150,000 condensing gas boilers sold in 2002 would have come from these energy efficiency programmes and that the numbers installed look set to increase even further over the next two years. Information from suppliers suggests that by 2004-2005 condensing boilers supplied through EEC schemes could represent nearly 20% of overall boiler sales.



The priority group

Suppliers must achieve at least 50% of the EEC target through the priority group of low-income consumers. **Chart 3** indicates that supplier's work is currently more focused towards delivering measures to the non-priority group. Suppliers may be focusing the initial phase of their work at non-priority customers who are an easier group to target. The chart also shows that suppliers have promoted a range of measures to the non-priority group.

Priority customers seem to be benefiting mainly from insulation measures, which provide both energy savings and comfort gains.

It should be noted, though, that Ofgem has approved roughly equal amounts of priority and non-priority work. As noted above it is taking a little more time for the priority work to come to the market.

Changes to the priority group

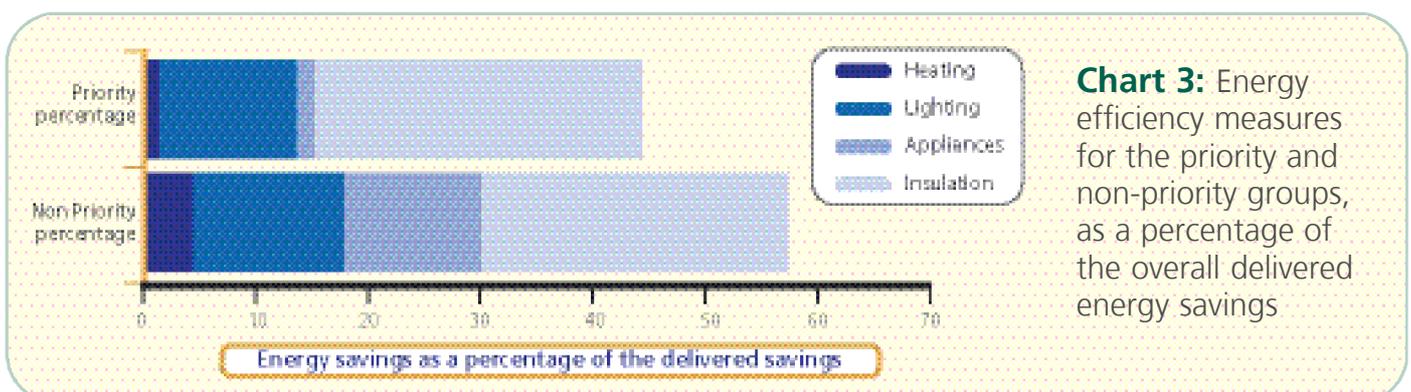
In April this year the Government will make changes to the tax credit system, and in October 2003 will introduce Pension Credit. The EEC priority group consists of those receiving income related benefits, as defined in the EEC Statutory Instrument, which will need to be amended to reflect these changes.

Defra has issued a consultation on the impact of the changes. This document can be viewed at www.defra.gov.uk/environment/consult/energy/eec1202 and comments should be submitted to them by 14 February 2003.

EEC Administration procedures

Ofgem produced its EEC Administration Procedures document in December 2001. This was intended to be a working document to provide guidance to suppliers on complying with the EEC. It also puts procedures in place for suppliers to provide information to Ofgem. Over the last year, Ofgem has been reviewing these procedures to

identify areas which could be clarified or updated. We are also looking to publish details on the integration of the EEC with other government programmes such as Community Energy and will provide updated details on links with the UK Emissions Trading Scheme.



Energy Efficiency - across the EU

In January Charles Hargreaves from Ofgem addressed two international energy efficiency seminars, the first in Lisbon and the second in Paris. His presentations highlighted the regulatory framework in which the Energy Efficiency Commitment operates and the experience to date of overseeing the programme. The seminars were part of a European Commission project looking at bringing energy efficiency to the liberalised energy markets. They lead to an international conference in Brussels on 27-28 March.

At both seminars there was considerable interest in the British experience. In Portugal it was noted that the British suppliers were obliged to meet an energy efficiency target. The Portuguese regulator, ERSE, is currently considering a programme that would incentivise the main supplier to carry out energy efficiency work. However, it is finding it difficult to get the right balance between the incentive and the consumer benefit.

At the Paris seminar, the Italian regulator outlined the energy efficiency programme it regulates. It was noted that the energy efficiency obligation is on distributors because distributors in Italy derive little money from the number of electricity or gas units that they deliver and the regulator therefore concluded that energy efficiency was less likely to provide a perverse incentive. However,

it was commented that because the target was focused on distributors in the Italian model energy efficiency would have to remain part of the price control.

At both seminars there was considerable interest in the European Directive on Energy Efficiency. In Portugal it was emphasised that it would be important to allow trading of carbon credits between renewables and energy efficiency, while in Paris the main concern seemed to be focused around the difficulty in setting energy efficiency targets for each member state, when each will be in a very different starting position.

Renewable energy policy: The first Ofgem Renewables newsletter has just been published. If you would like to receive a copy, please email renewable@ofgem.gov.uk

Energy efficiency team



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A list of suppliers with an EEC target can be viewed at www.ofgem.gov.uk

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