

# **Ofgem's 3-year strategy 2004-7**

## **Response by the Energy Saving Trust October 2003**

### **Introduction**

We welcome the opportunity to provide input into Ofgem's 3 year strategy for 2004-7. Our response will focus on the interaction between the economic, environmental and social areas of Ofgem's activities, and Ofgem's role in encouraging innovation.

### **Our Interest**

EST is a non-profit company largely funded by Government to deliver sustainable energy solutions to households, small firms and in the road transport sector. EST is one of the UK's leading organisations fighting to combat climate change.

### **Key Challenges**

We currently see three key challenges for Ofgem:

- *Implementation of the government's Energy White Paper commitments*  
Ofgem will have the task of administering an enlarged Energy Efficiency Commitment from 2005, will also have to support the implementation of the government's CHP strategy after its publication, and will need to enable the growth of distributed energy generation.
- *Balancing economic, social and environmental priorities*  
Since publication of the Energy White Paper there will need to be greater emphasis on the environmental impacts of energy policy decisions. Energy efficiency is identified in the Energy White Paper as the "cheapest, cleanest and safest way of addressing all our policy goals" and is therefore a major priority. We believe Ofgem should be more proactive in encouraging consumers to take up energy efficiency measures as it is good for them and the environment.
- *Strategic development of a sustainable energy industry in the UK*  
The main challenge from the Energy White Paper, and European regulation, is the creation of a truly sustainable energy industry in the UK. To date, Ofgem has taken a short-term view, and has encouraged the development of some competitive energy markets that militate against sustainable energy.

### **Ofgem's response to these challenges**

#### *Implementation of the government's Energy White Paper commitments*

The ongoing discussions between Government, Ofgem, the energy suppliers and the energy efficiency industry about the structure of the doubled EEC in 2005 are crucial. Ofgem has a key role as the EEC administrator. However EST believes Ofgem

should assist Government in developing an efficient and workable EEC2 at the level indicated in the Energy White Paper.

The EWP is clear that all sectors of the economy need to contribute to the 60% CO<sub>2</sub> emissions reduction needed by 2050, and EEC provides the main mechanism for households to contribute. While the EUETS will provide a framework for trading in carbon savings from energy generation, EEC is a crucial demand-side mechanism, which both the UK Government and the EU believe will continue to have a very important role to play alongside the EUETS. Household energy efficiency is the most cost effective option for the economy, but won't be delivered by the EUETS. While it is necessary to explore ideas for ways of encouraging increased competition in the provision of energy efficiency measures to consumers, we believe this should be developed within the EEC framework. We do not believe that energy suppliers should be encouraged to think their EEC obligations could be met outside the household sector.

#### *Balancing economic, social and environmental priorities*

In addition, it is extremely important that Ofgem considers this work as part of its core function, and ensures good internal communication between the regulatory and scheme administration sections of the organisation. Ofgem has enthusiastically delivered its social objectives, and indeed continues to encourage consumers to reduce their energy bills through supplier switching. However we have not seen Ofgem take a similarly public profile encouraging consumers to embrace energy efficiency. This is not in the interests of consumers.

#### *Strategic development of a sustainable energy industry in the UK*

In the coming years, Ofgem will have to ensure that its decisions contribute materially to the sustainable development of the UK energy industry.

This will require a long-term approach, informed by the Energy White Paper, to ensure that the energy industries have a sufficiently stable framework for the change that they will need to undergo over the coming years.

Ofgem will need to conduct critical environmental impact analysis of any proposed changes to the energy markets. Ofgem should also be explicit that emissions reduction and functioning markets are not mutually exclusive. Ofgem's current approach appears too often to be driven by narrow, economic concerns, without sufficient regard to the wider picture.

#### **Other areas of work**

Security of supply will need to be delivered, among other ways, through reduced energy usage. Ofgem's work on distributed generation and reducing costs in the supply networks will also help deliver environmental, competition and security of supply objectives. We believe Ofgem should do further analytical work on the value of avoided supply, and the long term value of distributed and diverse generation. It would be equitable for Ofgem to assess the costs of reducing demand against that of increasing supply.

In the context of the distribution price review, we believe Ofgem should continue the work on distributed generation, and indeed give it the profile and value it requires.

We hope you find our comments useful. Should you have any questions please do not hesitate to contact us by phone or email.