

EEEC UPDATE

Issue 7 Feb 2004

Energy Efficiency Commitment Key Facts

- **The suppliers' final targets have now been set**
- **Over the last three months, suppliers have installed measures which will save over 6 TeraWatt hours (TWh) of energy**
- **Suppliers are - for the first time - ahead of schedule in meeting their targets**
- **More focus is needed on Priority Group households**

Introduction

The EEC (2002-2005) requires energy suppliers to save 62 TWh of energy by providing energy efficiency measures to households across Great Britain.

To recognise the benefits energy efficiency brings to low income customers, at least half of the energy savings must be targeted at the 'Priority Group' - households in receipt of certain income-related benefits or tax credits. Suppliers have flexibility in the types of energy efficiency measures that they provide to customers, such as insulation, lighting, appliances and heating measures. Suppliers can assist any domestic customer in Great Britain, whether their home is heated by gas, electricity, coal, oil or LPG.

The measures sold or installed between October and December 2003 will produce an energy saving of over 6 TWh. This means that more than half-way through the EEC programme suppliers have achieved 37 TWh, more than half of the energy savings needed to meet the 62 TWh target. The installation of insulation measures is expected to account for around 60 per cent of the total energy savings.

Target setting

The suppliers' individual EEC targets have just been finalised. The overall energy saving target of 62 TWh is apportioned to suppliers (who have at least 15,000 domestic customers) in relation to their total number of



The Energy Action Scotland Annual Conference: Charles Hargreaves (left); Martin O'Neill MP, EAS President and William Gillis, Chief Executive NEA (right)

domestic gas and electricity customers. The suppliers' EEC targets were provisionally set in 2002, revised last year and have now been finalised. Each of the following suppliers has an energy efficiency target to be met by 31 March 2005:

Atlantic Electric and Gas, British Gas, Cambridge Gas, EDF Energy, Energy Supplies UK, npower, Powergen, ScottishPower, Scottish and Southern Energy and TXU Energy. Telecom Plus and Opus Energy are new entrants to the programme this year.

Contact details for the suppliers are available on Ofgem's website, www.ofgem.gov.uk

Energy suppliers are now just ahead of schedule in delivering their EEC targets

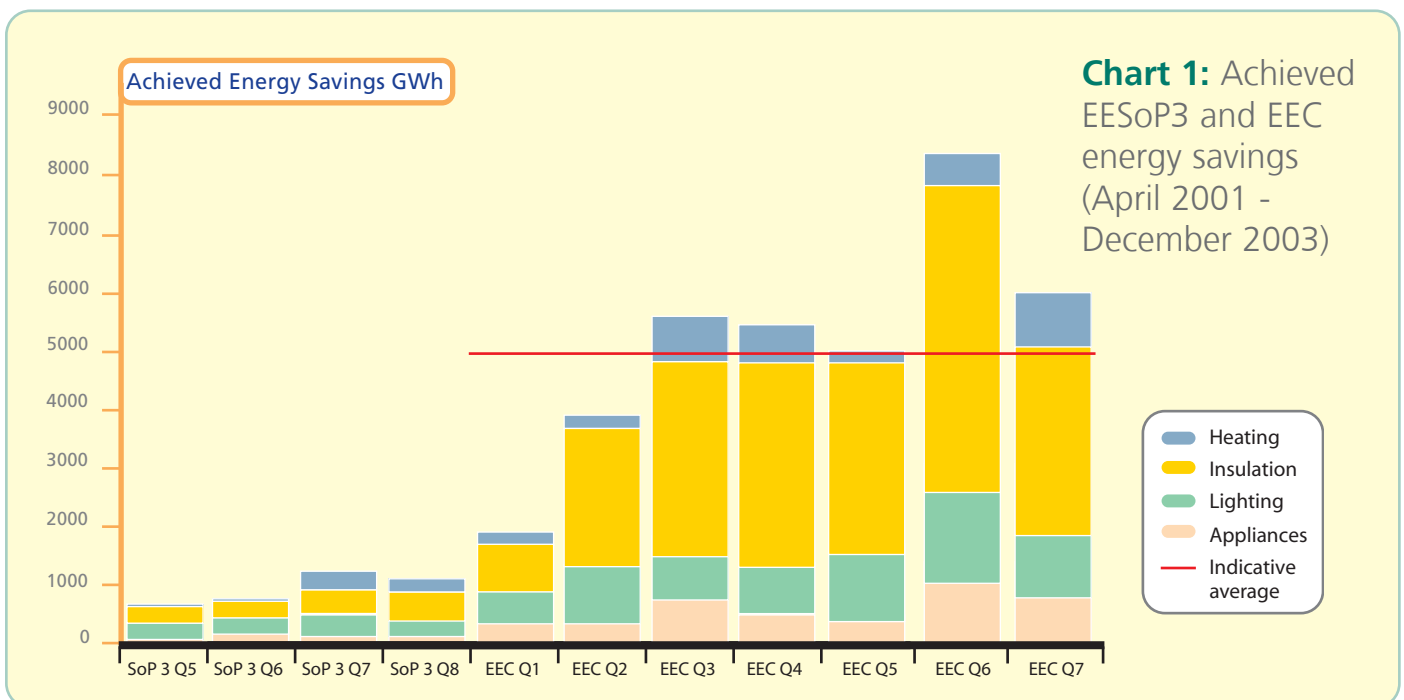
Data from suppliers' quarterly reports covering October - December 2003 shows that suppliers have been able to exceed the indicative average required to meet the target. There has been little change in the mix of measures used to achieve this target.

On average, suppliers need to deliver over 5 TWh of energy savings each quarter in order to achieve the total EEC target. Over the first seven quarters of the EEC - April 2002 to December 2003 - this would equate to an energy saving of over 36 TWh. As shown in **Chart 1**, over the last three months suppliers delivered measures which resulted in an energy saving of just over 6 TWh.

This brings the overall energy savings of the EEC achieved to date to over 37 TWh, meaning that suppliers are now

just ahead of schedule in meeting their targets. This data is encouraging considering how suppliers have had to ramp up their work from the volumes being delivered under the EESoP 3 programme (see **Chart 1** below). The challenge for suppliers will be to maintain this delivery level over the next 15 months.

The achievement over the last quarter is lower than the 8 TWh achieved in the three months prior, July to September 2003. Suppliers are still showing interest in purchasing measures from Warm Front, Warm Deal and Welsh HEES, as it is a cost effective way to meet their target and assist Priority Group households.



Measures delivered to customers

Suppliers can employ any mix of measures and are accredited with the energy savings which will be made over the entire lifetime of that measure.

The mix of measures delivered by suppliers has stayed broadly consistent over the first 21 months of the EEC. Insulation measures - particularly filling cavity walls - has dominated and accounts for around 60 percent of the total energy savings.

A fifth of the total energy savings reported have resulted from the distribution of CFLs, over half of which have been given to Priority Group households.

From July to September, heating measures, which are predominantly boilers and heating controls, accounted for just 5 per cent of the energy savings to result from that quarter.

This has more than doubled with the installation of heating measures leading to 13 per cent of the energy savings from October to December 2003, showing the seasonal trend in the demand for heating measures.

Heating showed a similar jump during the corresponding period of 2002 and it will be interesting to see if this continues during the second half of the winter heating season.

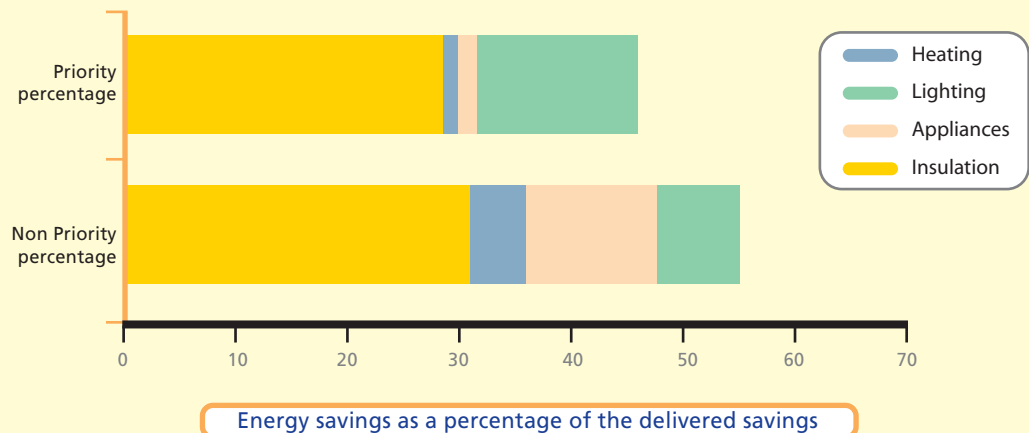
The Priority Group

To recognise the social benefits of energy efficiency, suppliers are required to target at least 50 per cent of their energy savings at the Priority Group - those households in receipt of certain income related benefits.

The majority of measures going to the Priority Group are insulation, reflecting the success of partnerships between

suppliers and social housing providers. As shown in **Chart 2**, suppliers are currently achieving around 45 per cent of their savings within the Priority Group and will have to work to make up for this shortfall in order to achieve their targets by April 2005.

Chart 2: Energy efficiency measures for the priority and non-priority groups, as a percentage of the overall delivered energy savings



Energy services pilot

Following on from the Energy White Paper, the Government set up a working group to look at how to create an effective market in energy services. Energy services are seen as a way of encouraging customers to take up energy efficiency measures by shifting the focus from selling units of energy to offering the services derived from the use of energy such as warmth and light.

The Energy Services Working Group, comprising representatives from DTI, Defra, Ofgem, energy suppliers and other stakeholders, met over the last year. As announced by Patricia Hewitt in a press release at the end of 2004, the Group proposed a pilot to lift the 28 day rule for suppliers who provide genuine energy services packages to their customers.

Ofgem has issued a consultation paper on how the pilot should be constructed. Entitled 'Testing domestic consumer take-up of energy services: trial suspension of 28 day rule,' the paper was issued on 19 January and is available on Ofgem's website (www.ofgem.gov.uk).

Views are sought on the size of the trial, how energy services are defined, what contractual arrangements can be permitted and how consumer protection can be ensured. It is proposed that the pilot should run for two years, allowing suppliers to set up contracts to run for a maximum of five years. It is also proposed that suppliers should be able to set up such contracts with up to 4 per cent of their customers.

The Group has proposed that the package offered to customers must include an energy efficiency audit, dedicated advice and that measures installed must produce an energy saving of 15 per cent within each household. In order to maintain customer protection, suppliers will only have the ability to waive the 28 day rule where the specific requirements of the trial have been met. The deadline for responses is 13 February 2004.

Currently, suppliers are achieving over 7 per cent of their total energy savings through energy services in the EEC. To encourage energy services, defra made allowance for suppliers to receive a 50 per cent uplift in energy savings for such schemes.

This uplift will apply to energy services accounting for up to 10 per cent of a supplier's target. It will be interesting to see if suppliers wish to continue delivering energy services once they have each passed this limit and what effect the energy services pilot will have on the EEC.

Energy Action Scotland Conference

November 2003



Alistair Buchanan, Ofgem Chief Executive, speaking at the Energy Action Scotland (EAS) Annual Conference 2003, 5-7 November at Airth near Falkirk

Alistair Buchanan attended the Energy Action Scotland Annual Conference in November last year, making his first speech in his role as Ofgem's Chief Executive.

Alistair started by confirming Ofgem's wish to help achieve the Scottish Fuel Poverty Statement (which aims to eradicate Fuel Poverty in Scotland by 2016 as far as is reasonably practical).

He went on to consider the challenges to meeting this goal, including rising fuel prices and the impact of environmental costs.

The problems unique to Scotland were also recognised, such as the majority of the Scottish housing stock being 'hard to treat'. Alistair then went on to focus upon Ofgem's duty to protect customers, taking into account disadvantaged customers.

He suggested that the following issues be explored:

- better targeting of the Government's energy efficiency programmes, encouraging the

development of tariffs to better suit customers' needs

- continuing to encourage customers to benefit from the ability to switch suppliers, while ensuring that customers are protected
- encouraging suitable technologies, such as community heating or ground source heat pumps
- encouraging best practice among energy suppliers, and
- working with the relevant consumer bodies.

Alistair concluded his speech by confirming his aim of recognising the big issues affecting consumers as well as the day-to-day issues and identifying solutions at a local and national level.

Energy efficiency team



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We do this by:

- promoting effective competition, wherever appropriate
- regulating only where necessary

