

Testing domestic consumer take-up of energy services: trial suspension of 28 day rule

Green Alliance response

Introduction

This submission is based on Green Alliance's work in two relevant areas: Energy Services and Micro-generation. In July 2003, Green Alliance held a seminar examining the necessary framework for developing energy services. The seminar brought together a high-level group of representatives from government, business, academia and NGOs, to discuss the potential for energy services in business and domestic sectors. Green Alliance's views on this issue are based on the discussion at this event and further discussions with key stakeholders.

Green Alliance also coordinates the Energy Entrepreneurs network, which brings together innovative companies, sustainable energy associations, NGOs, local and regional authorities, engineering and design firms that are engaged in diverse efforts to overcome the barriers to micro-generation. By micro-generation we mean the phenomenon of users or operators of buildings beginning to generate their own heat and power, either from renewable sources, such as ground source heat-pumps, wood pellet boilers, woodchip CHP plants, solar thermal and PV, or from domestic and district CHP. Based on discussions within this network we have raised some points of concern, at the end of this submission, about the potential impacts of the trial design on the inclusion of micro-generation in energy service packages.

Delivering energy efficiency through energy services

Green Alliance believes that energy services could help to improve energy efficiency in the business and domestic sector. The shift from selling electricity as a product to understanding what a customer wants from energy offers the opportunity to meet those needs more efficiently and cheaply. In addition, energy services have the potential to realise efficiency gains from integrating generation, supply and use of energy.

Green Alliance strongly supports the proposed relaxation of the 28 day rule. However, Green Alliance believes that the successful uptake of energy services is dependent not only on this specific regulatory measure. We would like to suggest that successful uptake of energy services is dependent on a broader regulatory and fiscal framework that rewards provision of energy services, rather than simply supply of energy.

Green Alliance believes that the current regulatory objective of promoting competition on the basis of price makes it difficult to sell longer-term solutions such as energy service packages. Green Alliance believes that there is a need to reconfigure the relationship between the regulator and supplier. This should be based on working together to remove the supply company's incentive to increase low-price electricity sales. Instead, we would like to see suppliers competing on ability to reduce customers' bills by providing energy services to run homes and businesses efficiently and at least cost.

Issues not addressed by the proposed trial

Green Alliance believes that the following issues need to be addressed alongside relaxation of the 28-day rule to ensure successful uptake of energy services:

- Government needs to develop incentives for suppliers to market energy services as there is currently no generalised business case for demand reduction
- The business issues around finance and investment for energy services packages need to be investigated. Fiscal and regulatory changes will be important in building investor confidence
- Further fiscal measures are needed to incentivise domestic customers. Such measures could include: energy efficiency information requirements on buyers and sellers of homes; introduction of a preferential rate of stamp duty for energy efficient homes; council tax rebates; and grants for investment in energy efficiency
- Building standards need to support energy services in new build and refurbishment
- Government has a role to play in providing information and promotion, support and advice

Within this context, Green Alliance would argue that a trial for energy services that is limited to suspension of the 28 day rule without support by other measures, is limited. This limitation should be explicit in evaluation of the trial.

Comments on the proposed trial

We would like to raise a number of specific issues in relation to Ofgem's proposed trial suspension of the 28 day rule.

- Green Alliance welcomes Ofgem's commitment to reducing carbon emissions through improved efficiency. However, we are concerned that there is a need for greater acknowledgement of the broader benefits of developing energy services. Such packages can contribute to the flexible provision of energy, and stimulate new models of energy delivery. Energy services should be encouraged as a mechanism to stimulate use of new energy technologies by existing or new energy providers, and novel ways of financing these.
- Energy services packages can make it easier to engage consumers in the energy and climate change debate, as they have a direct interest in energy provision. In this context, Green Alliance believes there is an active role for government and Ofgem to play in supporting communication activities on the need for energy efficiency through energy services.
- Energy services should provide the opportunity for suppliers to simplify the purchase and use of energy for consumers, with a single energy service bill covering gas, electricity, any other sources of energy such as microCHP, and energy efficiency measures. Green Alliance believes that Ofgem's proposed conditions for the trial do not enable this simplified structure.
- The method of implementation is critical to the successful uptake of energy services. Flexible mechanisms are required, which allow companies to choose the least cost technology to deliver energy efficiency. Green Alliance believes that the proposed conditions on suppliers are too prescriptive. In addition, the

terms of the trial present extra costs where margins are already tight for suppliers to offer cost savings.

- Information provision is critical to the success of energy services. Green Alliance would argue that government should support organisations such as the Energy Savings Trust in providing support and advice on energy services to customers.
- Through its work, Green Alliance has identified a number of barriers to the energy services model, which we believe Ofgem should explicitly address as part of the trial relaxation of the 28 day rule:
 - Domestic customers do not give high priority to energy efficiency (except the fuel poor)
 - Energy service offerings are not widely available, and are unfamiliar, further reducing their appeal
 - Customers are suspicious of letting strangers into their home to perform work
 - Suppliers face difficulties in securing investment capital for new offerings, and demonstrating an adequate payback period/rate of return.
- Green Alliance has concerns that the limited scale of the proposed trial in terms of customer numbers will limit the potential benefits. The limited scope should be explicitly acknowledged in the evaluation. Energy suppliers should be encouraged to market energy services packages with a view to increasing their customer base, as well as improving customer loyalty. If suppliers are restricted to targeting 4 per cent of their customer base then the potential for new offerings to increase suppliers' market share will be untested.
- The evaluation of the proposed trial will determine whether energy services are perceived to be in the consumers' interest. Green Alliance believes that a broad definition of consumers interest should be used. In addition to cost benefits, the evaluation should consider carbon savings achieved, and the ability to engage the consumer and communicate government policy on climate change.

Potential for inclusion of micro-generation

General comments

We welcome the statement in Section 5.9.8 that "It is intended that within the trial it should be possible to include alternative generation such as micro-CHP within energy service packages."

Micro-generation can play a significant role, beyond its carbon reduction potential, in building awareness among consumers of the need for responsible energy use. If this potential is to be realised, there is a need for a package of policies to support micro-generation, alongside the trial relaxation of the 28-day rule. The extent to which suppliers choose to market these technologies in energy service packages will be greatly affected by whether Enhanced Capital Allowances and reduced VAT rates are made available to micro-generation technologies. The Energy Efficiency Commitment could also play a significant role in promoting micro-generation, through new uplift provisions, or through its development into a certificate-based trading scheme permitting third party implementation of household demand reduction.

Suppliers and finance companies are also expressing an active interest in developing new financial products to support micro-generation, such as preferential loan rates or even new financial packages linked to home mortgages or insurance products. We

would urge Ofgem to take this opportunity to encourage their market development during the two-year trial.

Section 5.9.6 15% energy savings threshold

Green Alliance, based on discussions with the Energy Entrepreneurs network, has concerns about the implications of this energy savings threshold for inclusion of micro-generation. Customers will be best served if there is a wide choice of different energy services packages. This is best achieved by setting a threshold that encourages as many options as possible. Green Alliance believes that a lower threshold should be set which would enable suppliers to offer packages focused on micro-generation, such as solar PV, which can achieve further indirect energy savings through promoting more responsible energy use. A lower threshold should therefore not be allied to complex 'cherry picking' provisions, which will act to constrain choice for consumers.

In particular, there should be no requirement that the offering must "include all of the most common measures, if specified in the home audit as relevant to the customer". This would rule out the option for customers to choose more focused micro-generation packages.

Section 5.9.8 How the reduction in energy supplied should be measured

The 'reduction in energy supplied' must recognise not only avoided imports of energy by the consumer, but also energy exported from a consumer with a micro-generator which in turn reduces demand on the grid by the next-door neighbour.

Green Alliance
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