

Fiona Kenyon
Environmental Affairs Directorate
Ofgem
9 Millbank
London
SW1P 3GE

E.ON UK plc
Wyvern House
Colliers Way
Nottingham
NG8 6AT
eon-uk.com

Mike Newell
08704 191 552

mike.newell@eon-uk.com

Monday 13th September 2004

**Re: Energy Efficiency Commitment 2005 – 2008
Administration procedures - Consultation Response**

Dear Fiona,

We are writing to respond to your consultation document on the administration of EEC 2005 - 2008. We believe the future EEC programme will be incredibly stretching and it is beholden on Ofgem to deliver an administrative process that does not burden the delivery of the target.

On balance we fully support a process that ensures both a level playing field and one that ensures the Programme reflects valid energy savings. Clearly Ofgem has an obligation to ensure all savings are legitimate but a workable, practical set of administration procedures are essential if Energy Suppliers are to avoid excessive costs which will in the end be passed onto customers.

We have set out our concerns in the attached paper and responded specifically to those requests in Section 2. Overleaf I have highlighted those sections of our response which are of particular concern to us.

E.ON UK plc
Registered in
England and Wales
No 2366970
Registered Office:
Westwood Way
Westwood Business Park
Coventry CV4 8LG

Specific Areas of Concern

Target Setting – The premise that suppliers should have a disproportionate target based on the assumption that they are able to gain economies of scale no longer applies.

Virgin Lofts – the interpretation of what constitutes a virgin loft requires clarification and a process of consistent auditing and monitoring needs to be agreed.

CFL sales – To ensure and encourage a viable alternative to insulation CFL sales should be encouraged by the removal of a maximum limit. To support market transformation the Retail and Direct approach should be treated equally.

Concept of Additionality – in our opinion the scale of target to be delivered and the threat of limited capacity means that without the delivery of volumes greater than current supply the Energy Supplier will fail in target delivery. Hence additionality becomes an irrelevant administrative burden.

Yours sincerely



Mike Newell
Energy Efficiency Manager
E.ON UK

**The Energy Efficiency Commitment 2005–2008
Response from E.ON, the company that runs Powergen, to the
Administration Procedures Consultation.**

Target Setting

3.13 We are happy with the approach laid down within the consultation document with the exception of the formula used to determine the actual target. The natural logarithmic formula which results in the larger suppliers getting a larger share of the target is outdated within the future EEC obligation. All six major Suppliers have similar buying power and from now on are unlikely to realise greater efficiencies through programmes of ever increasing size. Ofgem's own annual report on the progress of suppliers in the current EEC shows that the smaller suppliers such as Scottish Power and EDF are nearer completing the target and by inference find it easier than BG, nPower and Powergen. As the nature of the Defra indicative model is heavily biased towards delivery through insulation measures with the remaining measures provide no substantial alternative in meeting the target, and as the future EEC target is beyond the current domestic insulation industry's capacity means that it is likely that the larger suppliers will be more exposed to the supply and demand cost issues. Therefore to secure supply capacity and minimise risk of under achievement the larger suppliers are more likely to require greater proportional investment. We understand that the formula is built into the statutory instrument but we believe Ofgem has a responsibility to ensure a level playing field in the delivery of this obligation and the Defra formula prevents this from the very beginning. The formula should be replaced with a straight line relationship when a supplier has more than 1 million customers.

Suppliers Proposals

4.25 We are happy to report quarterly the number of Cavity wall installations but would also urge Ofgem to insist Suppliers also report the percentage and number of virgin lofts insulated.

Auditing

5.13 The setting of contracts with project partners should be at the discretion and risk of the Energy Supplier and should not be part of a mandatory process which could be audited upon.

Compliance

5.14 If Ofgem are seeking to carry out technical checks at their own expense confirmation of the objective and what value these inspection will bring is requested. We are very aware of the discussion within the insulation industry about classing loft insulation older than 30years as a virgin loft and our concern regarding compliance rests with this issue. We would therefore be in favour of on-site auditing where the number of virgin lofts insulated exceeds the expectations within the Defra model. With increased target pressures there is the need to ensure that installations are fairly reported.

Definition of a qualifying action

6.4 We believe that there are people living in house of multiple occupancy or those that receive their energy supply as part of a rental package e.g. park homes, sheltered accommodation, community based living, that should be eligible for EEC support and provision should be made to include them. Their inclusion will help to tackle both an energy inefficient sector in the case of park homes and help to educate an audience currently excluded from our activities.

Qualifying Action

6.9(ii c) We are very concerned about the proposed treatment of CFL's in EEC II and consider the proposals set out in the consultation will greatly limit the opportunities suppliers can create for consumers to benefit from low energy lighting.

The Defra model indicates that suppliers will sell/distribute 41 million CFL's. There is no substance to the 27 million sales estimates for the Retail sector and so suppliers will need to explore all avenues to offer CFL's direct to consumers. CFL's sold directly or via Retail should receive the same savings benefit. There should not be a restriction on the type or number purchased by a householder through the Direct sales approach. With the need to deliver a greater variety of CFL's to meet the various requirements of a home the householder will demand from their Supplier the flexibility of choice they can get in the High Street.

Without this approach we could be faced with refusing direct sales to a householder knowing that they have purchased their quota via a Retail outlet. We believe by Ofgem placing increasing restrictions on suppliers through limiting customers to a maximum of six is inappropriate. We understand Ofgem's concerns regarding the strategic use of CFL's in EEC I but the reduction in lifetime energy savings for CFL's from EEC I to EEC II

and the equalisation of savings for priority and non-priority consumers is sufficient to ensure that the approach taken to deliver CFL uptake in EECII is different to EECI.

(ii b). If a consumer is asked to give their name and address we consider this would deter some people from accepting the light bulbs for fear of being added to a mailing list. In addition the administrative burden will make it impractical and therefore this limits another economic alternative to home insulation.

We would suggest that where a 3rd party representative is able to request CFL's and promise to distribute on behalf of their client group e.g. Charities, SHP's, Care & Concern Agencies, we should be able to support such claims.

(ii d). If an average saving per lamp is agreed regardless of wattage then suppliers will be happy to offer a range of wattages and lamp type, we are therefore in agreement with this suggestion.

(vi b). We do not agree that when partnering with manufacturers of products such as consumer electronics that the improvements in energy efficiency performance should be additional to those targeted by voluntary agreements. We consider the sales weighted average to be a more appropriate method of benchmarking the current energy efficiency performance and if the voluntary agreements are working the results would be the same.

The ethos of EEC is that measures are in addition to the mandatory requirements therefore voluntary agreements should not be included.

(vii a). We consider the need for rigorous demonstration of additionality to be outdated and a relic from the EESoP past. The EEC II target will by default require suppliers deliver considerable "additionality" across the programme in order to achieve the Governments carbon saving aspirations. Breaking down the obligation into a number of areas, each requiring clear demonstration of specific additionality is a disproportionate approach to regulation.

In the case of DIY loft insulation, suppliers should not be required to demonstrate any uplift as the current level of uncertainty within the insulation industry regarding material supply there would be no guarantee that manufacturers would have the product to achieve such an increase in

sales.

As with DIY loft insulation we do not consider any uplift should be demonstrated for Retail CFL's and appliances.

6.17. We agree with Ofgem's proposal on using a statistically significant sample to determine the proportion of consumers in the Priority Group. However, schemes that deliver a small level of uptake would be burdened with attracting a proportionately higher numbers of responses in order to prove the Priority claim. Therefore we propose that suppliers should be able to claim the lower limit applicable to the actual confidence level pertaining to the final number of responses achieved.

Estimation and determination of the improvement in energy efficiency

7.6 Comment for EEC PM's – This section seems to imply that Ofgem will apply their own averaged national house type mix drawn from the Defra model. In submitting our ex-post claims will our property claims be proportioned out to fit this mix? This cannot be correct but clarification may be needed.

Professionally installed insulation

7.17. We agree that Ofgem should calculate one set of energy savings for loft insulation. Due to customer, technical and product supply based reasoning we don't consider that all top-ups should necessarily be to 250mm. We would therefore also like savings for adding 100mm of insulation to the various existing depths to be accredited i.e 0-100mm, 25–125mm, 50–150mm, 75-175mm, 100-200mm.

DIY Loft insulation

7.24. Whilst we have no objection in principal to this correction factor suggestion it is essential that the energy savings assumed by Defra in developing the target setting model are the same as the ex ante energy savings (ref 7.29). In order to protect existing contractual commitments energy savings ex-poste should be reflective of the agreed ex-ante submission. Any revisions to savings employing this correction factor should only apply to schemes submitted after the determination of this factor through the research.

Radiator Panels

7.41 We consider that the cost of administering such schemes whether in the professionally installed or DIY sector will restrict the uptake of this measure.

Lighting

7.45. We approve of the suggestion to qualify the low use fittings separately. We would recommend basing any energy saving calculation on the Light research carried out in EESoP III but seek clarification on how Ofgem intend to determine whether a CFL is deemed to be placed in a low use fitting.

Direct CFL's

7.51 In developing new markets the limiting of CFL sales to 6 per household is restrictive. In the case of candle and new classic models etc. the customer should be allowed to determine their needs. If a limit is to be considered then a purchase of six 20W (total 120W) for example could be equated to allowing a 5W candle purchase of 24 giving a total wattage purchase of 120W. This seems to be an equitable approach.

Whilst this sales area is un-chartered territory we would suggest some further audit process that applies to purchases over the six currently allowed. Whilst we wish to minimise the impact of administration procedures a fledgling market we would be happy to consider a process which uses customer satisfaction to qualify such purchases.

7.52. We are in general agreement with this proposal with the exception that we do not agree with the distinction between CFL's sold direct from a supplier to a consumer and CFL's sold through a Retailer. If a Supplier offers a range of types, wattages, and numbers of CFL's surely they would be simulating the retail experience and should be allowed to claim all sales under the Retail lamp mix formula.

Cold & Wet Appliances

7.57. We agree that A, A+, and A++ products should be separately accredited but claims must be reflective of the Defra target setting model.

Heating – Boiler Replacement

7.70 We agree with the position that Ofgem will adjust accreditation based on new regulatory proposals.

Fuel Substitution

7.75. We are happy with this proposed position.

New or innovative measures

7.79. Considering Defra has used ApacheSim to “measure” the Heat Replacement Effect we consider appropriate suppliers are allowed the same option in determining energy savings of new or innovative measures.

Defra’s review of the EEC

8.4. Under this proposal suppliers will be incurring increased costs in order to deliver research on behalf of Defra. This is unacceptable in an obligation that is costing suppliers many millions of pounds. Whilst we have supported Defra in previous research this has been undertaken outside of the EEC obligation and we recommend that this approach remains.

Standard Monitoring Questions

8.6. We have no issue with this request.

8.10./8.27. We do not support the view that customer satisfaction monitoring will assist Ofgem in determining “improvements in energy efficiency” when those responding to the survey will not be addressing issues from a technical perspective. Historically customer satisfaction identifies issues of a personnel perception such as promptness, politeness, cleanliness and at best perception of comfort.

Appendix 2 Social Housing Provider declaration

This declaration should be written in the future tense as it will be signed at the beginning of a project when the funding levels are agreed. To ask for an ex-poste declaration serves no real benefit and any adjustment to the original programme will be reflected in the post analysis exercise which can then be reviewed at the audit stage.