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Mr A. MacFaul
Head of Government Affairs
Office and Gas and Electricity Markets
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29th September 2005

Dear Andy

Ofgem's five year strategy 2006-2011

The Energy Saving Trust is pleased to be given the opportunity to respond to the above consultation. The Energy Saving Trust was established as part of the Government's action plan in response to the 1992 Earth Summit in Rio de Janeiro, which addressed worldwide concerns on sustainable development issues. We are the UK's leading organisation working through partnerships towards the sustainable and efficient use of energy by households, communities and the road transport sector and one of the key delivery agents for the Government's climate change objectives. Our response focuses on the key areas of the Energy Saving Trust's activities and related issues. We do not attempt to answer issues outside of our area of expertise. Please note that this response should not be taken as representing the views of individual Energy Saving Trust members.

Under the Energy Act 2004 Ofgem is now obliged to consider how best it can contribute to sustainable development. We see this as a major opportunity for Ofgem to embed environment issues at the core of its work and take a lead in supporting UK Government's climate change objectives, including its target to reduce CO₂ by 20% by 2010 and its longer term 2050 target.

We welcome the new framework established by the Authority that will allow Ofgem to participate in the wider debate on the interactions between environmental policy and energy markets. Energy Saving Trust has identified the following four strategic issues, which relate to sustainable development that should feature as key priority areas for future Ofgem work:

- The key issue facing UK citizens is that of climate change.
- Rising energy prices are likely to have a detrimental impact on the alleviation of fuel poverty.
- Security of supply, which is best tackled by reducing energy demand in the first place.
- The introduction of new energy efficiency, metering and microgeneration technologies including mass market renewables.

It is therefore clear that Ofgem's primary objectives are consistent with the further advancement of sustainable development. Indeed given the recent price rises, the best means of protecting consumer's interests is to focus on energy efficiency improvements that will reduce customer's bills, reduce dependency on fossil fuels, help enhance security of supply, make a major contribution in reducing fuel poverty whilst mitigating the damaging impacts of climate change which are increasingly impacting on UK citizens. With the right policy framework, it will be far quicker to implement energy efficiency measures than to build new power stations.

The development of mass market renewables can help alleviate fuel poverty in off-gas network areas and will also reduce CO₂ emissions primary fuel dependence etc. Energy efficiency and mass market renewables should therefore be at the core of Ofgem's activities now and in the future.

Specific actions we believe that the Authority should take to respond to these challenges include:

Markets policy

- **Working with suppliers and government to improve the delivery of the Energy Efficiency Commitment (EEC).** We suggest that consideration should be given to the potential benefits of moving EEC to a more market-based approach that could include non-supplier programmes and a "buy-out" provision similar to the Renewable Obligation to improve cost-effectiveness. This would then allow future targets to be strengthened accordingly. This should include proactive consideration of the benefits of energy efficiency or "white certificate" trading. We are planning to undertake a significant piece of work this year that will explore the implications of introducing a more market based EEC and we would welcome Ofgem's input into this project accordingly.
- **Better integration of EEC with other social policies.** We believe that there is potential to improve the integration of EEC with Warm Front (and the equivalent programmes in the devolved administrations) in EEC2 and thereafter. It is also important to recognise that there are differences in approaches across Great Britain between Warm Front and the equivalent programmes which also need to be taken into account accordingly.
- **Continue to facilitate the development of energy services companies.** In addition to the trial relaxation of the 28 day rule, we urge Ofgem to explore potential options to mainstream the provision of energy services by suppliers and potential new entrants.

Distribution and security of supply

- **Increasing the role of microgeneration.** Whilst energy efficiency is the key solution to fuel poverty in most homes, some homes particularly 'hard to treat' solid wall properties off the gas network require additional solutions including the use of microgeneration to delivering 'affordable heating for all'. We believe that a major focus of Ofgem's strategy should be to facilitate the development of microgeneration including mass market renewables. Full details of how this might be progressed are included in our response to Ofgem's consultation on the 'Regulatory implications of domestic-scale microgeneration' earlier this year, which I

attach for your convenience. In particular this should include refinement of the Renewables Obligation (RO) support mechanism to make it easier for micro-generation to gain RO Certificates (ROCs).

- **Proven contribution of energy efficiency and potentially biomass in enhancing security of supply.** We believe greater recognition should be given to the proven contribution of energy efficiency (through demand reduction) and the potential role of biomass, eg wood wastes, (as base load generation) in enhancing security of supply.

Consumer policy

- **Better consumption data for consumers.** Consumers need to be provided with accurate consumption and billing data that is easily understood in order to effectively manage their energy consumption. Ofgem's previous work on this subject, and the experiences of other countries, clearly demonstrates that better data and billing will improve the take up of energy efficiency measures to the benefit of consumers. We believe that Ofgem should be placing a higher strategic importance on working with suppliers to improve the accuracy and clarity of billing and consumption data.
- **Support for the development of smart metering and data systems.** The introduction of smart metering would help improve the clarity and provision of consumption data, which would help consumers manage their energy usage. We believe that further work is required to investigate how the uptake of smart metering technology could be progressed. We are looking to part fund a project investigating the policy, regulatory and commercial drivers for smart metering which is due to report in Q1 2006.
- **Improving the delivery of Energy Smart.** We welcome the joint Energy Smart initiative between Ofgem and energywatch including the provision of the top 10 energy efficiency tips. However, it is important for greater emphasis to be placed on encouraging consumers to go to the next step in seeking advice and implementing energy efficiency measures. The Energy Saving Trust is best placed to provide this through its existing infrastructure, including its network of 52 Energy Efficiency Advisory Centres and its pilot Sustainable Energy Networks. This would ensure cost-effective delivery of consistent messages. Historically, we have worked at a regional level with energywatch to develop referral mechanisms, and are currently exploring ways of improving referral activities on a national basis.

Enforcement

- **Development of mechanisms to underpin the green supply guidelines.** We believe Ofgem should support and fund the development of mechanisms that will help enforce the guidelines and promote the uptake of green tariffs, in particular robust accreditation schemes.
- **Greater involvement in the development of energy efficiency related European legislation and initiatives.** As part of Ofgem's increasing engagement with European energy issues, eg through the Council of European Energy Regulators, we believe greater engagement on European energy efficiency issues is also required. This should go further than issues relating to the transposition of European directives into UK legislation.

Relationship with other strategic plans

- **A full review of Ofgem's 2001 Environmental Action Plan.** In the context of Ofgem's wider strategy we believe that it is also timely for Ofgem to implement a full review of its 2001 Environmental Action Plan, rather than its current annual reviews. Although these are helpful there is always the tendency to focus on 'more of the same' rather than reflect the additional sustainable development responsibilities of Ofgem. We note that the 2004/05 review identifies work on energy efficiency in relation to the administration of the EEC and consideration of new initiatives in metering and billing (following the previous work undertaken by the Centre for Sustainable Energy reported in May 2004). In relation to mass market renewables proposed work includes finalising revised green supply guidelines and working closely with the Government on the major review of the Renewables Obligation. We believe Ofgem needs to go further than what is essentially the continuation of current activities if it is to embed sustainable development at the core of its work.
- **Interface with the Social Action Strategy.** For completeness we have included potential areas of priority work that address social issues in the wider context of sustainable development and Ofgem's strategy. For ease of reference, I also attach our full response to Ofgem's recent consultation on its Social Action Strategy.

In summary, Energy Saving Trust believes that Ofgem's future strategy needs to focus far more on sustainable development, specifically energy efficiency and mass market renewables to reduce customer's bills, help alleviate fuel poverty, mitigate climate change and enhance security of supply. Energy Saving Trust is keen to work closely with Ofgem to help deliver the objectives arising from an increased focus on Sustainable Development.

I trust that you find this response helpful. Meanwhile I would be pleased to discuss these issues in more detail with you.

Yours sincerely

Brian Samuel
Head of Policy Research

COPY OF THE ENERGY SAVING TRUST RESPONSE TO THE REGULATORY IMPLICATIONS OF DOMESTIC-SCALE MICROGENERATION CONSULTATION

Arthur Cooke
Ofgem
9 Millbank
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13 July 2005

Dear Mr Cooke

The regulatory implications of domestic-scale microgeneration

Thank you for giving Energy Saving Trust (EST) the opportunity to respond to the above consultation. Please note this response should not be taken as representing the views of the individual Trust members.

EST was set up by the Government following the 1992 Rio Earth Summit and is one of the UK's leading organisations addressing the damaging effects of climate change. EST's goal is to achieve the sustainable and efficient use of energy, and to cut carbon dioxide emissions, one of the key contributors to climate change.

EST welcomes the opportunity to comment on the regulatory implications of domestic-scale microgeneration and address the following points:

Rationale

Under paragraph 2.8, Ofgem states that the responsibility for electrical safety rests with the Department of Trade and Industry's (DTI's) Engineering Inspectorate rather than with Ofgem. However, EST notes that under section 15 of the Utilities Act the "*...Secretary of State and the Authority shall consult with the Health and Safety Commission about all electricity safety issues which may be relevant to the carrying out of any of their respective functions....*"

The Utilities Act defines an electricity safety issue as being '*....anything concerning the generation, transmission, distribution or supply of electricity which may affect the health and safety of member of the public or persons employed in connection with any of those activities.*'

EST considers that Ofgem has a duty to consult with the Health and Safety Commission concerning the health and safety of those members of the public owning a microgenerator and/or persons employed in connection with microgeneration.

Microgeneration providers

Paragraph 6.8 – Ofgem would be interested to hear from manufacturers, retailers and consumer groups regarding the information currently provided to customers about the legal and technical responsibilities of microgeneration operators; and any industry proposals for expanding the information and guidance currently provided.

EST strongly supports the recommendations of Project P04 'Accrual of ROCs & LECs' Workstream 4 of the Distributed Generation Coordinating Group¹. Non-technical audiences (such as householders and new industry players) would benefit enormously from the production of a Simple Guide to the practical requirements of applying for and obtaining Renewable Obligation Certificates (ROCs).

In addition, EST believes customers would benefit from an export price comparison sheet to be consistent with import price comparisons.

This guide would best be accompanied by a help line to provide impartial advice and guidance to microgenerators. EST is strongly positioned to manage the help desk based on its existing infrastructure. During 2004, 1.2 million customers contacted EST via websites, call centres and its 52 national Energy Efficiency Advice Centres (EEACs) and were advised accordingly.

Under paragraph 6.5, Ofgem states that "where a specialist takes responsibility for providing and commissioning microgeneration equipment, it is to be expected that the personnel involved will have sufficient knowledge to comply with the connection requirements set out in Section 4."

EST currently operates accreditation of products, services and organisations to assess eligibility for installing grant-funded projects under the PV Major Demonstration Programme and Scottish Community and Householder Renewables Initiative. EST also collaborates closely with the Building Research Establishment on the ClearSkies accreditation.

EST strongly supports the importance of robust accreditation mechanisms as recognised by the DTI in its consultation on a microgeneration strategy and low carbon buildings programme. EST believes a list of accredited installers should be made available to customers.

Licensed suppliers and microgeneration

Condition 17: Reading and inspection of meters

Paragraph 7.16 – Ofgem invites comments on modifications of Condition 16 or Condition 17 to ensure identification of reverse-running meters, which Ofgem considers are not appropriate for use in the case of microgeneration.

Under Question 55 of the 2005-06 Review of the Renewables Obligation Consultation the DTI sought views on the potential benefits of removing the requirement for a sale and buy back agreement and whether a sale and buy back agreement is necessary to provide evidence that electricity from small generators is usefully supplying customers in the UK.

EST considers that the existing requirement for a sale and buy back agreement provides an unnecessary administrative barrier for microgenerators. EST supports the removal of the requirement on microgenerators for the agreement with a supplier below a certain threshold as recommended by the DTI in its consultation on 2005-6 Review of the Renewables Obligation. However, EST believes that the removal of the requirement for a sale and buy back agreement should be on all microgenerators not just those that consume electricity themselves.

¹ http://www.distributed-generation.gov.uk/documents/23_03_2005_dgdti00039-01-01.pdf

However, even if DTI agrees to change primary legislation to remove this requirement there is no indication of when that would occur.

As such, EST considers that the additional requirements Ofgem's propose to place on electricity suppliers by modifying Standard Licence Condition 17 should not apply in respect of Non Half Hourly (NHH) meters measuring gross generation as part of a sell and buy back agreement.

This would be consistent with the administration of Renewable Obligation Certificates (ROCs) wherein, gross NHH meters do not require an inspection. The indirect cost of a meter inspection could be significant for a microgenerator (smeared across the customer base by the incumbent supplier) which only accrues one or two ROCs a year.

In addition, EST believes that if Ofgem did place an additional obligation on electricity suppliers to read and inspect gross NHH meters as part of a sell and buy back agreement this may place the incumbent supplier in a dominant market position. The supplier providing the sell and buy back agreement may not be the same supplier providing the customer's imports. Under paragraph 7.3, Ofgem acknowledges the purchaser of exported units need not be the same as the supplier in whose name the import Metering Point Administration Number (MPAN) is registered.

In this instance, there may be two supplier agents inspecting different meters at different times. The incumbent supplier, whose agent could inspect both meters on the same visit, may be at an advantage compared to any non-incumbent supplier who might wish to offer a sell and buy back agreement in return for ROCs.

Condition 25: Efficient use of electricity

EST agrees that licensed suppliers should review their codes of practice on the efficient use of electricity with a view to including information on microgeneration.

As previously mentioned, the DTI proposed the removal of the requirement for a sale and buy back agreement in their 2005-06 Review of the Renewables Obligation Consultation. EST would urge Ofgem to co ordinate with the DTI before requiring licensed suppliers to review and modify the codes of practice to include arrangement made under Article 10 of the RO.

Condition 32: Duty to supply domestic customers

Under paragraph 7.23, Ofgem states it is not persuaded to create an obligation on licensed suppliers to offer to enter into a contract for the purchase of microgeneration output and would be interested to hear views on the issue.

EST strongly agrees with the first recommendation of Project P02a 'Identity basic Metering Requirements and Export Reward Criteria' Workstream 4 of the Distributed Generation Coordinating Group² that an obligation should be placed on suppliers to offer and publish terms for 'off take' from microgeneration.

In addition, EST supports the enactment of the Microgeneration Bill introduced into Parliament on 7th April 2005 (and which will be re-introduced in new Parliament). The Bill, if enacted would, amongst other things, require that a licensed electricity supplier may only

² http://www.distributed-generation.gov.uk/documents/23_03_2005_ws4_p02a_recommendations140305.pdf

supply electricity to a domestic customer if that supplier also undertakes to buy a at market rate any electricity produced by that customer (or by a group of customers of which that customer is a member) by microgeneration. This would provide extra income for the homeowners and as identified in the DTI's microgeneration strategy and low carbon buildings programme consultation, "*payment for electricity would obviously make microgeneration a more attractive proposition as it can help shorten the overall payback period*".

EST was a partner of the European Commission funded Renewable Energy Action (REACT) project, which analysed the relationship between the actual deployment of renewable energy and the applied policies³. The findings were presented on 25th February 2005 at a workshop in Brussels. Virginia Graham attended on behalf of Ofgem. The project aimed to provide an informal platform to communicate best practices across the EU and identified best practice case studies from Member States for renewable heat, electricity and biofuels. Based on analysis of the case studies, the REACT project developed recommendations for the three markets.

One of the key findings of the electricity recommendations was that Member States that offer stable and predictable production based price regimes (esp. feed-in tariffs) have the most successful renewable energy sourced electricity market deployment⁴.

Condition 41: terms for supply of electricity incompatible with licence conditions

EST believes that licensed suppliers should be obliged to offer to enter into a contract for the purchase of microgeneration output. This obligation would regulate the terms of contract for the purchase and prevent a situation where contractual terms for export might be used to deprive a domestic customer of protection under the supply licence.

Metering point administration

EST does not consider it necessary to add any additional regulatory burden onto the Distribution Network Operator (DNO) to inform the consumer of any export MPAN created in respect of the premises. EST believes that licensed suppliers should be obliged to offer to enter into a contract for the purchase of microgeneration output. In doing so, the licensed suppliers would be required to notify the consumer of the export MPAN which is consistent with their existing obligation to notify the consumer of the import MPAN.

If you require any further information please do not hesitate to contact me on 020 7654 2418.

Yours sincerely

Catherine Monaghan
Strategy Manager Renewables

³ <http://www.senternovem.nl/React/Index.asp>

⁴ http://www.senternovem.nl/mmfiles/REACT%20Electricity%20recommendations%20V2_tcm24-117002.pdf

COPY OF THE ENERGY SAVING TRUST RESPONSE TO THE SOCIAL ACTION STRATEGY CONSULTATION

David Barnes
Ofgem
9 Millbank
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SW1P 3GE

31 August 2005

Dear David Barnes

Ofgem's Social Action Strategy

Thank you for giving us the opportunity to respond to the above consultation. Please note that this response should not be taken as representing the views of individual Energy Saving Trust members.

The Energy Saving Trust was established as part of the Government's action plan in response to the 1992 Earth Summit in Rio de Janeiro, which addressed worldwide concerns on sustainable development issues. We are the UK's leading organisation working through partnerships towards the sustainable and efficient use of energy by households, communities and the road transport sector and one of the key delivery agents for the Government's climate change objectives. Our response focuses on the key areas of the Energy Saving Trust's activities and related issues. We do not attempt to answer questions outside of our area of expertise.

Before commenting on the specifics of the consultation we would first of all like to highlight a number of general points.

Difference in approaches across Great Britain

The draft strategy refers to fuel poverty targets as they relate to England only. While the deadline for the eradication of fuel poverty is also 2016 for Scotland the date is 2018 for Wales. In addition, while the target for the eradication of fuel poverty amongst vulnerable households by 2010 applies across Great Britain with Scotland and Wales have separate interim targets leading up to 2010. The programmes to deliver these targets also differ across Great Britain. In our response to Ofgem's corporate strategy earlier this year we highlighted that Ofgem should be: *'encouraging improvements in the interaction between EEC and the existing fuel poverty programmes, such as Warm Front, Warm Deal, Welsh Home Energy Efficiency Scheme (HEES), Scottish Heating Grant Scheme and the Scottish Housing Quality Standard (SHQS)'*.

In order for this to happen it is important that the differences between each country are acknowledged as they impact on how existing fuel poverty programmes interact with EEC. For example, recent Ofgem figures on EEC indicate that the share of supplier energy saving activity achieved in Scotland 2002-5 is 7%, lower than the share of the number of households at roughly 9%. England received c. 86% of the energy savings in line with the number of households, while Wales received 7%, more than its share of the number of households. As such the **Energy Saving Trust recommends that the Strategy recognises the relevant differences in approach across Great Britain, and promotes**

better interaction between Warm Front (and equivalent programmes in the devolved administrations).

The role of microgeneration

We welcome the recognition of the important role energy efficiency plays in the eradication of fuel poverty. While energy efficiency techniques will remain the key solutions to fuel poverty in most homes, the standard package of energy efficiency measures cannot remove certain homes from fuel poverty, particularly older 'hard to treat' solid wall properties off the gas network. In these cases, new and renewable technologies have a role to play in the avoidance of fuel poverty. The contribution that microgeneration could make to delivering 'affordable heating for all' is also recognised within the DTI's current consultation on a Microgeneration Strategy and a Low Carbon Buildings Programme. As such **the Energy Saving Trust believes that the Social Action Strategy must recognise the role that microgeneration could play in alleviating fuel poverty and Ofgem's role in encouraging this.** The Energy Saving Trust's views on the role that Ofgem should play in the regulation of domestic-scale microgeneration is outlined in our response to Ofgem's consultation on the regulatory implications of domestic-scale microgeneration of earlier this year.

The remainder of our response follows the format of the consultation document.

3.13 Benefits entitlement checks

The Energy Saving Trust facilitates, on behalf of Defra the Energy Efficiency Partnership for Homes (EEPfH), the aim of which is to assist Government with attaining its climate change targets and eliminating fuel poverty. EEPfH's Fuel Poverty Strategy Group plays an important role in identifying areas where further action might be required to ensure effective delivery of the Government's fuel poverty targets. The Energy Saving Trust is represented on this group and plays an active role in its work.

In this context we welcome Ofgem's commitment to exploring best practice in relation to benefits entitlement checks to increase the take-up of the benefits entitled, and would like to highlight a related piece of work that the EEPfH will undertake this year. The planned work will explore examples of good practice and make recommendations as to how energy efficiency programmes could be integrated with welfare rights provision. It will build on the research carried out during 2004/5 by NEA for Defra, which sampled a number of agencies given welfare advice (e.g. CAB, Help the Aged, Welfare Rights Officers, Warm Front, Warm Zones).

The Energy Saving Trust would welcome the opportunity to meet with Ofgem to discuss the scope of the EEPfH's planned work to avoid duplication and ensure the work is complementary to that planned by Ofgem, and would of course be happy to share results of work with Ofgem.

3.14 Fuel poverty indicator

The Energy Saving Trust welcomes Ofgem's support for the development of CSE's fuel poverty indicator. There is however a range of tools used to assess fuel poverty in the UK. These have different applications and are used in various situations. Against this background the EEPfH has recently tendered a piece of work to assess the validity of the fuel poverty indicator tools available in the UK and gain a better understanding of the effectiveness of their application. For further details see: http://www.est.org.uk/partnership/energy/index.cfm?mode=view&news_id=446. Again, we would be happy to share the results of this work with Ofgem.

3.19 & 3.21 Information for consumers

The Energy Saving Trust Limited, Registered Office: 21 Dartmouth Street, London SW1H 9BP
Registered in England and Wales No. 2622374

We would welcome reference to the Energy Saving Trust's activities in promoting energy efficiency activities in the household sector. This is especially pertinent given that the Energy Saving Trust launched a £3m EEC campaign on 14th February this year to raise awareness of EEC amongst consumers in addition to our ongoing marketing activities. We note that Ofgem will be '*Looking at how customers can be encouraged to take up offers of help from suppliers*'. **The Energy Saving Trust has significant expertise and knowledge in this area that Ofgem could draw on, and we would welcome the opportunity to share this.** It will also be important to take account of the activities under the Government's Climate Change Communications Programme to ensure consistency and clarity of approach whilst avoiding duplication.

We welcome the joint Energy Smart initiative between Ofgem and energywatch including the provision of the top 10 energy efficiency tips. It is important to recognise that consumers need to be encouraged to go to the next step in seeking advice and implementing energy efficiency measures. The Energy Saving Trust is best placed to provide this through its existing infrastructure, including its network of 52 Energy Efficiency Advisory Centres. This would ensure cost-effective delivery of consistent messages. **We would welcome the opportunity to meet with Ofgem to explore how best this might be achieved.** Historically, we have worked at a regional level with energywatch to develop referral mechanisms, and going forwards we will explore with them ways of improving referral activities nationally.

We also believe that the importance of the Advice Providers Code of Practice should be highlighted within the Social Action Strategy. The Code of Practice is a set of standards for providers of energy efficiency advice in the UK. The standards within the Code of Practice are designed to ensure that an advice provider supplies current and effective energy efficiency advice and has its own systems and procedures in place to maintain high standards of service. The Code of Practice is part of the Department for the Environment, Food and Rural Affairs' national strategy for domestic energy efficiency.

In addition we believe that more need be done improve information provided on bills, and that this needs to be recognised within the Social Action Strategy. Currently it is difficult to compare and understand consumption patterns, which makes it difficult for consumers to link the impact of their behaviour to energy usage and to understand how energy efficiency measures might benefit them. Introducing a billing code of practice would be helpful in this respect and need not constrain suppliers from offering innovative products. We would also welcome initiatives to encourage the development of smart metering, which has the potential to facilitate energy management and energy efficiency thereby reducing costs to consumers and note that Italy is currently implementing improved metering systems.

Finally, we welcome Ofgem's plans to run a seminar on fuel poverty and energy efficiency in Q3 of this year, and we would welcome the opportunity to be involved in this. Given the important role of the EEPfH's in this area we would also like to highlight the importance of its involvement.

We would welcome the opportunity to discuss our response in further detail with you.

Yours sincerely

Elaine Waterson
Strategy Manager, Energy Efficiency