

**A review of the first year of the Energy
Efficiency Commitment**

**A report for the Secretary of State for
Environment, Food and Rural Affairs**

July 2003

Summary

In the first year of the Energy Efficiency Commitment (EEC) suppliers met more than a quarter of the overall energy efficiency target. While it might have been expected that suppliers would have achieved about a third of the target in the first year of a three year programme, the EEC requires suppliers to increase their levels of energy efficiency activity substantially over the former EESoP programme. The first year of the programme has therefore required a rapid acceleration in activity by the suppliers and overall they have clearly made a good start towards meeting their targets.

The EEC, which began in April 2002, requires suppliers to achieve improvements in domestic energy efficiency by the end of March 2005. It is one of the Government's key climate change policies designed to reduce the emissions from households. It also has an important role in alleviating fuel poverty amongst a low-income group, contributing to the Fuel Poverty Strategy. The Government's recent Energy White Paper endorsed the importance of the EEC saying that the Government would consult on expanding the programme from 2005, at possibly twice its current level of activity.

Defra set an overall energy saving target of 62 TWh for the EEC, which is equivalent to a 1% per annum reduction in carbon dioxide emissions from households. The only constraint on the suppliers' activity is that they must achieve at least half of their energy savings in households on income-related benefits and tax credits. Ofgem is required to administer the programme and check that each supplier meets its energy saving target.

The suppliers' performance varied considerably over the first year, with the best performing supplier achieving more than half of its target and the worst performer only achieving around 10%. However, each supplier's performance is dependent on how it intends to meet its target. Suppliers that have chosen to be more dependent on working with social housing providers have tended to be amongst the poorer performers, whilst those that have formed alliances with retailers or the Warm Front managing agents have been among the better performers, because both the latter delivery routes provide suppliers with an access to a large amount of energy savings.

The majority of the supplier activity in the first year has been focused on the delivery of insulation to consumers, with the largest energy saving from their activity coming from the installation of cavity wall insulation. Roughly 20% of supplier activity has come in the delivery of low energy lamps - it is anticipated that over the course of the EEC more

than 25 million lamps will be delivered to consumers. The remainder of the energy savings is expected to result from the installation of heating measures and appliances.

The majority of the energy savings achieved in the first year came in the non-Priority Group. The slight shortfall against the Priority Group target reflects the time taken for some of the suppliers to set up large insulation programmes with social housing providers. Over the course of the remainder of the EEC suppliers will have to make up the shortfall to ensure that at least half of the energy savings are achieved in the Priority Group.

This report fulfils Ofgem's first year reporting duties to the Secretary of State for Environment, Food and Rural Affairs under the Energy Efficiency Obligations Order 2001¹. In addition to reporting on each supplier's performance, as required, Ofgem has included extra analysis that we consider will help Defra with the design and setting up of a second EEC programme.

¹ The Electricity and Gas (Energy Efficiency Obligations) Order 2001, December 2001, No. 4011, HMSO.

Table of contents

1. Introduction.....	1
Ofgem’s role under the Energy Efficiency Commitment	1
Administration of the EEC.....	2
Key features of the EEC.....	3
The annual review.....	4
2. Overall progress in the first year	6
Progress in year 1	6
Measures delivered	7
Proposed activity	8
The Priority Group	9
Trading	10
3. Each supplier’s progress.....	11
British Gas	13
Cambridge Gas	15
Dee Valley Group	15
LE Group.....	16
npower	18
Powergen.....	20
ScottishPower.....	23
Scottish and Southern Energy.....	26
TXU Energi.....	28
4. Comparison with Defra’s target-setting model.....	31
Insulation	32
Lighting.....	33
Appliances	33
Heating	34
Other measures	34

Innovative measures	35
The fuel mix.....	36
Targeting the Priority Group	37
5. The effects of the incentives on the overall carbon savings of the EEC	40
Energy services.....	40
Appliances	41
6. The interaction of the EEC with other policies.....	42
7. Emerging issues.....	44
Appendix 1 Glossary of terms.....	48

1. Introduction

- 1.1. The Electricity Act 1989 and Gas Act 1986 as amended by the Utilities Act make provision for the Government to set energy efficiency targets on suppliers. Defra has set the overall target and policy framework for the Energy Efficiency Commitment (EEC), with Ofgem required to administer the programme.
- 1.2. The EEC, which began in April 2002, requires suppliers to achieve a target amount of improvements in domestic energy efficiency. The EEC is an important part of the Climate Change Programme² and is highlighted in the Fuel Poverty Strategy³ as energy efficiency can deliver both the social benefits of alleviating fuel poverty and the environmental benefits of curbing carbon dioxide emissions. The Government's Energy White Paper⁴ further recognised the importance of energy efficiency in delivering its climate change targets and gave prominence to the role of the EEC in curbing emissions from households.
- 1.3. Defra has set an overall energy saving target of 62 TWh for the EEC, which is equivalent to a 1% per annum reduction in carbon dioxide emissions from households. An integral part of the target is that suppliers must ensure that at least 50% of the total energy savings are achieved from households within the Priority Group. The Priority Group is defined as those households receiving certain income related benefits or tax credits. The programme runs until 31 March 2005.

Ofgem's role under the Energy Efficiency Commitment

- 1.4. The Electricity and Gas (Energy Efficiency Obligations) Order 2001 sets out Ofgem's remit to administer the EEC. This includes:
 - determining the energy efficiency targets for each gas or electricity supplier on whom obligations are imposed, and adjusting these targets each year of the EEC,

² Climate Change the UK Programme, November 2000, DETR

³ The UK Fuel Poverty Strategy, November 2001, DEFRA and DTI

⁴ Our Energy Future – Creating a Low Carbon Economy, 2003, DTI
The Energy Efficiency Commitment annual report

- determining whether a proposed activity is considered to be qualifying action,
- determining any improvements in efficiency to be attributed to a qualifying action,
- providing written agreement where appropriate to a supplier regarding the trade of energy savings to another supplier,
- providing written agreement where appropriate to a supplier regarding trading all or part of their target to another supplier.
- reporting to the Secretary of State for the Environment, Food and Rural Affairs, each year of the programme.

Administration of the EEC

- 1.5. All licensed supplier groups with at least 15,000 gas or electricity domestic customers are subject to a target. Defra has set the overall EEC target and it is Ofgem's role to apportion this to suppliers in relation to their domestic customer numbers. The formula for target setting, which is provided in the Order, sets progressively higher targets for suppliers with larger customer numbers to take into account the economies of scale that they are expected to achieve.
- 1.6. The initial targets were set in January 2002 based upon customer numbers on 31 December 2001. These targets were revised in January 2003 and will be finalised in January 2004. Eleven suppliers were set a target in January 2002 and there has been one new entrant to the programme this year.
- 1.7. As administrator, Ofgem has put in place procedures to assess suppliers' proposals and to oversee their progress and compliance against their targets. Suppliers meet their targets by setting up schemes to promote and deliver energy efficiency measures. Scheme proposals are submitted to Ofgem to determine whether the scheme is qualifying action or not and what improvement in energy efficiency is to be attributed to it. These proposals detail the measures suppliers are planning to offer, how they will be promoted and who can benefit from the scheme. Suppliers must demonstrate how they are going to monitor whether the recipients of the scheme are in the Priority Group. Ofgem has developed an EEC

Scheme Spreadsheet which details the energy savings attributable to standard energy efficiency measures. Suppliers are accredited with energy savings for their schemes on an ex-ante basis. Where possible, the energy savings attributed to measures corresponds to Defra's target setting model. The level of energy savings has been taken from recognised sources such as the Building Research Establishment and the Energy Saving Trust. Ofgem has also appointed technical advisory agents to assist it in its role as administrator. The EEC Scheme Spreadsheet has been developed as suppliers have submitted schemes involving new or innovative measures.

- 1.8. Procedures are in place to monitor delivery and to oversee each supplier's progress against its target. Suppliers submit information to Ofgem each quarter, detailing the energy savings they have achieved. This information is used to compile Ofgem's quarterly EEC Update report which is available on our website at www.ofgem.gov.uk.
- 1.9. As well as monitoring each supplier's overall progress, Ofgem will audit a selection of individual schemes over the course of the programme. Ofgem has appointed an independent auditor for this role and the first round of auditing is now nearing completion. These audits will confirm whether the supplier's delivery conforms to their scheme submission and that the necessary procedures are in place for monitoring and reporting.
- 1.10. Suppliers are also required to report on each scheme once it has been completed, confirming how they promoted the scheme and the exact types and numbers of measures which were installed. This information will be used to determine whether each supplier's work is qualifying action. Ofgem commissioned a database to be built at the start of the EEC. This enables all the information on supplier's schemes and progress to be stored and reported upon.

Key features of the EEC

- 1.11. The key features of the EEC programme are as follows:
 - At least 50% of the total energy savings must be met within the Priority Group, i.e. those households receiving certain income related benefits or tax credits.

- The overall target is fuel standardised, suppliers can achieve savings in homes heated by gas, electricity, coal, oil or LPG.
- Suppliers have flexibility over the types of measures that they use to meet their targets.
- Suppliers are not required to spend a fixed amount of money.
- The target included business as usual energy efficiency activity. As a result, suppliers are allowed to tie in with existing programmes but every scheme must demonstrate that measures are being installed which are additional to the business as usual activity.
- The target has been derived assuming that suppliers will lever in funding from third parties such as social housing providers.
- Suppliers can trade their obligation or energy savings with other suppliers.
- There is an incentive (in terms of an uplift in savings) for suppliers to deliver schemes as an energy service package. The energy service savings eligible for uplift is limited to 10% of each supplier's target.
- Those suppliers who exceeded their Energy Efficiency Standard of Performance 3 (EESoP) targets are able to carry over these energy savings into the EEC. The amount that can be carried over is limited to 10% of each supplier's EEC target.
- Suppliers are obliged to meet their targets by 31 March 2005.

The annual review

- 1.12. Ofgem is required to report to the Secretary of State for Environment, Food and Rural Affairs at the end of each year of the EEC. Chapter 3 fulfils these reporting requirements of providing details on,
- (a) the progress towards the achievement of the supplier' targets over the first year of the programme;
 - (b) the schemes completed;

(c) proposed activity;

(d) the means by which the Priority Group target has been met.

1.13. Ofgem has also decided to provide further analysis within this report, to help inform the development of the EEC post 2005. The suppliers' overall progress in the first year is set out in Chapter 2. Chapter 4 compares the illustrative mix of measures in Defra's target setting model against the measures which suppliers are actually proposing to deliver. Chapter 5 sets out the results of an assessment of the effects on the incentives for energy services and A-rated appliances on the potential for carbon savings. Chapter 6 looks at the potential for the EEC to interact with other relevant Government policies, such as Warm Front and its devolved equivalents, Community Energy and Clear Skies.

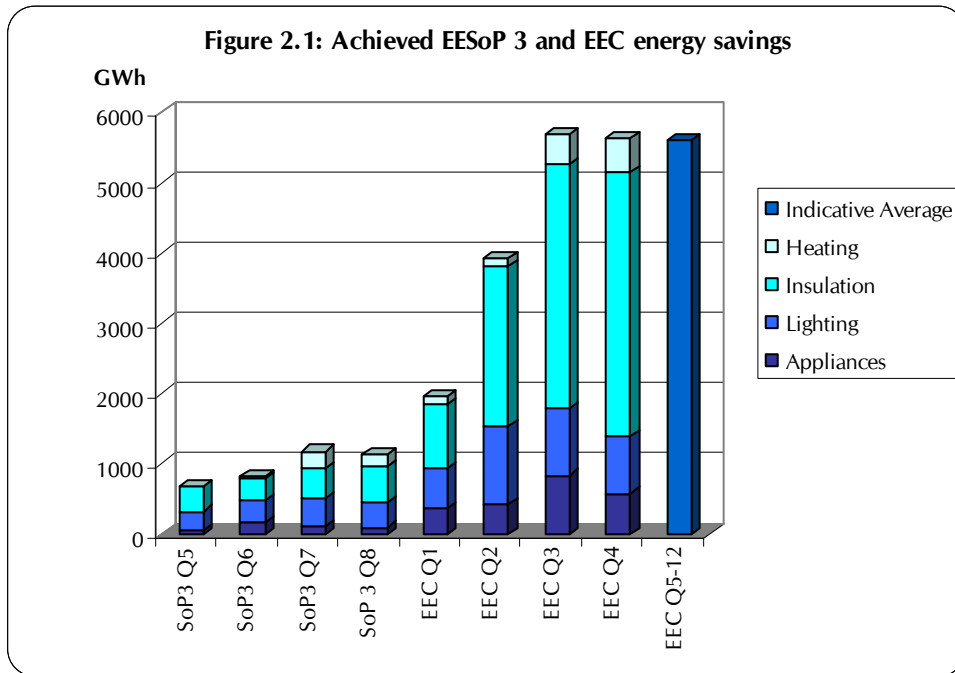
1.14. Chapter 7 looks at the issues which have emerged over the first year, identifying how they may affect the delivery of the EEC or how they may influence the development of future EEC programmes. A glossary of terms is provided in Appendix 1.

2. Overall progress in the first year

- 2.1. This chapter outlines the suppliers' progress against the overall EEC target during the first year. It discusses the main measures which the suppliers have been employing to meet their targets. The chapter also outlines the progress suppliers have made towards meeting at least half of the overall energy efficiency target in the Priority Group.
- 2.2. The initial EEC targets were set in 2002. The overall target of 62 TWh was divided across the following suppliers in proportion to their domestic customer numbers: Amerada, British Gas, Cambridge Gas, Dee Valley Group, LE Group, npower, Powergen, ScottishPower, Scottish and Southern Energy, Seaboard Energy and TXU Energi.

Progress in year 1

- 2.3. In the first year of the EEC suppliers achieved 17.2 TWh of energy savings towards the overall target of 62 TWh. To reach the overall target suppliers will have to install on average just over 5 TWh of energy efficiency measures per quarter of the three-year programme. This would equate to 20.7 TWh of energy efficiency measures in the first year, 3.5 TWh more than has actually been achieved. The EEC requires suppliers to increase their annual level of energy efficiency activity substantially over the former EESoP 3 (2000-2002) target. Figure 2.1 illustrates the increase in activity suppliers have achieved over the second half of the EESoP 3 programme and the first year of the EEC. It can be seen that by the end of the third quarter of the EEC, December 2002, the suppliers had managed to reach the average required installation rate and that roughly this level of activity was maintained in the fourth quarter. Each quarter's delivery is broken down into the main measure types: insulation, lighting, heating and appliances. The final column of the chart indicates the average quarterly level of activity required over the remainder of the EEC to achieve the target. A breakdown of the progress of each supplier against its target is provided in Chapter 3.

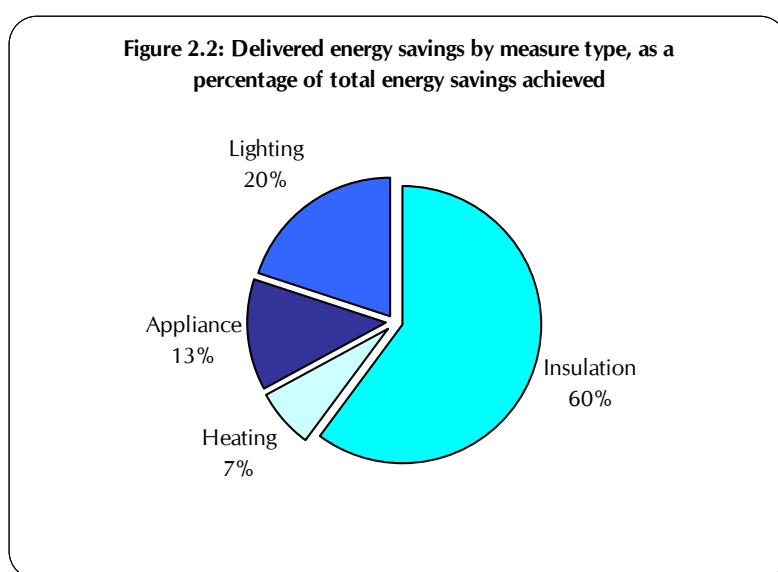


Measures delivered

- 2.4. Suppliers' work can be broken down into four broad categories of measure: lighting, insulation, heating and appliances. Figure 2.2 gives the breakdown of the measures that have been installed during the first year. Roughly 60% of the achieved savings have come from insulation, with 20% from lighting schemes and the remainder being made up from both heating and appliances.
- 2.5. Over the colder winter months, October to March, there was a rapid acceleration in insulation activity. The level of activity more than doubled compared with the summer months so that by the end of March 2003 roughly 10 TWh of insulation measures had been installed. This reflects the fact that suppliers were setting up contracts with their project partners in the first six months of the programme and also that there is a lower demand for insulation in the summer months. However, evidence from the insulation manufacturers suggests that the EEC is beginning to smooth the cyclical demand for insulation and that orders are not expected to decline over the summer months of 2003 as much as they have done in past summers.
- 2.6. The sharp increase in activity in insulation came at the expense of the proportion of lighting. Over the past six months the proportion of energy savings from lighting measures has declined from 29% at the end of the second quarter to

20% at the end of the first year. This relative decrease reflects the ease suppliers have in setting up lighting schemes and that these schemes were soon delivering at the anticipated rate. The delivery of lighting measures is now at the level of the suppliers' expected outturn.

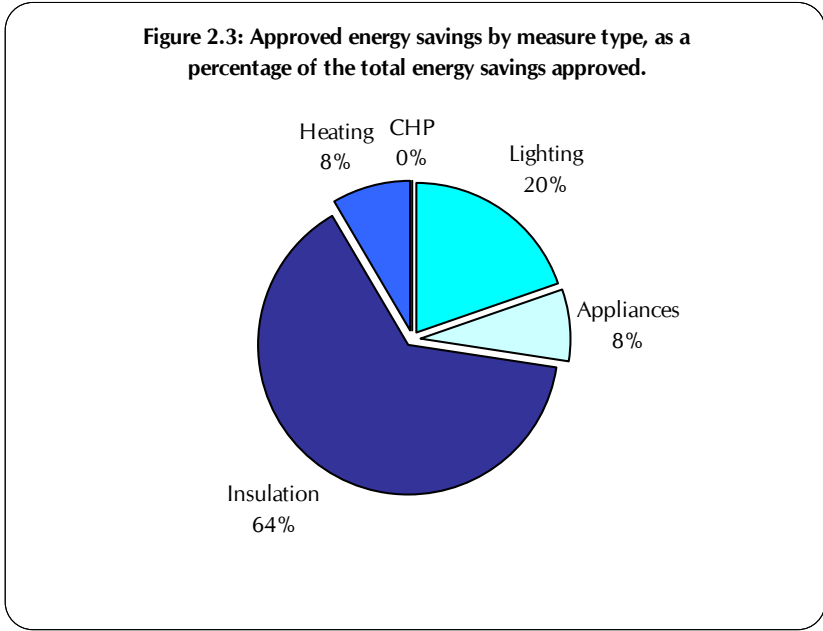
- 2.7. Heating and appliance schemes, despite involving large numbers of measures, continue to make up only a small proportion of the total delivered energy savings because of the relatively low energy savings available per measure.



Proposed activity

- 2.8. Figure 2.3 breaks down the suppliers' energy efficiency schemes by the approved energy savings. This chart shows that the suppliers are planning to continue to increase their current level of activity in insulation and that the contribution of appliances is likely to decline from the current levels. Heating and lighting are expected to remain at about the current level of activity. Some suppliers have received approval for some small scale CHP schemes. However, the level of energy saving is too small in comparison to the other measures to register on the chart.

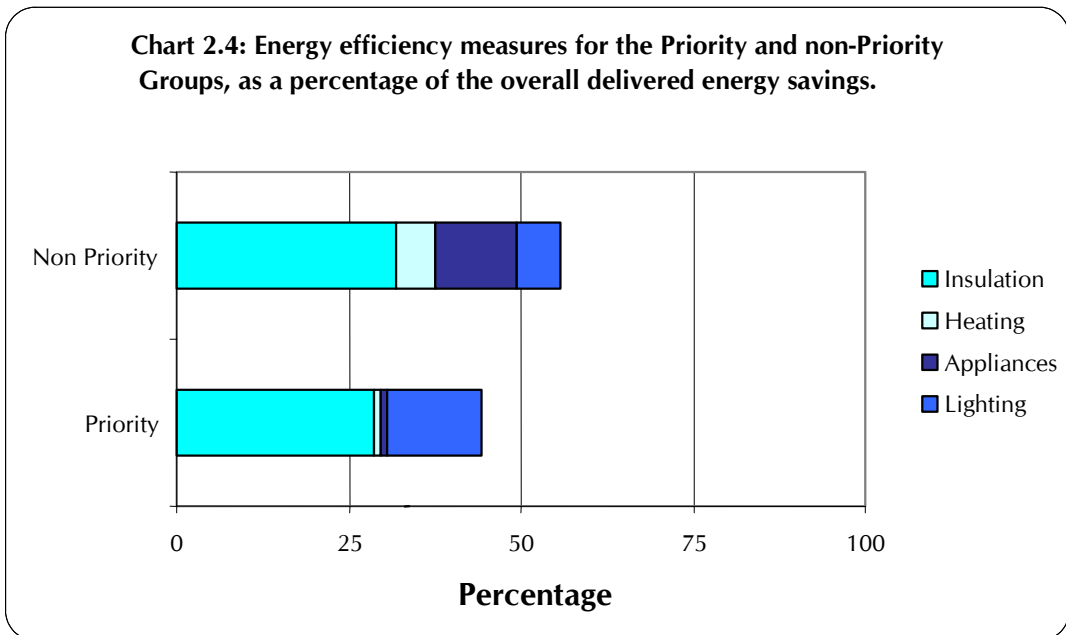
Figure 2.3: Approved energy savings by measure type, as a percentage of the total energy savings approved.



The Priority Group

2.9. The suppliers' initial activity has been slightly more focused at delivering energy savings to the non-Priority Group than the Priority Group. However, suppliers will not have completed their targets unless at least half of the qualifying activity comes in the Priority Group. Suppliers, therefore, over the following two years will have to increase the share of Priority Group work to ensure that their overall target is reached. Figure 2.4 shows the split of work between the Priority and the non-Priority Groups at the end of the first year of the EEC.

Chart 2.4: Energy efficiency measures for the Priority and non-Priority Groups, as a percentage of the overall delivered energy savings.



- 2.10. The delivery of insulation and heating measures to the Priority group will lead to the combined benefit of increasing warmth and reducing bills of consumers. These effects are particularly important for those who find it difficult to afford to heat their homes properly.
- 2.11. The majority of the Priority Group work will be delivered in partnership with Local Authorities and Housing Associations. This will allow suppliers to target the Priority Group effectively and to lever extra funding for their schemes. More details of suppliers work on targeting the Priority Group is provided in Chapter 4.

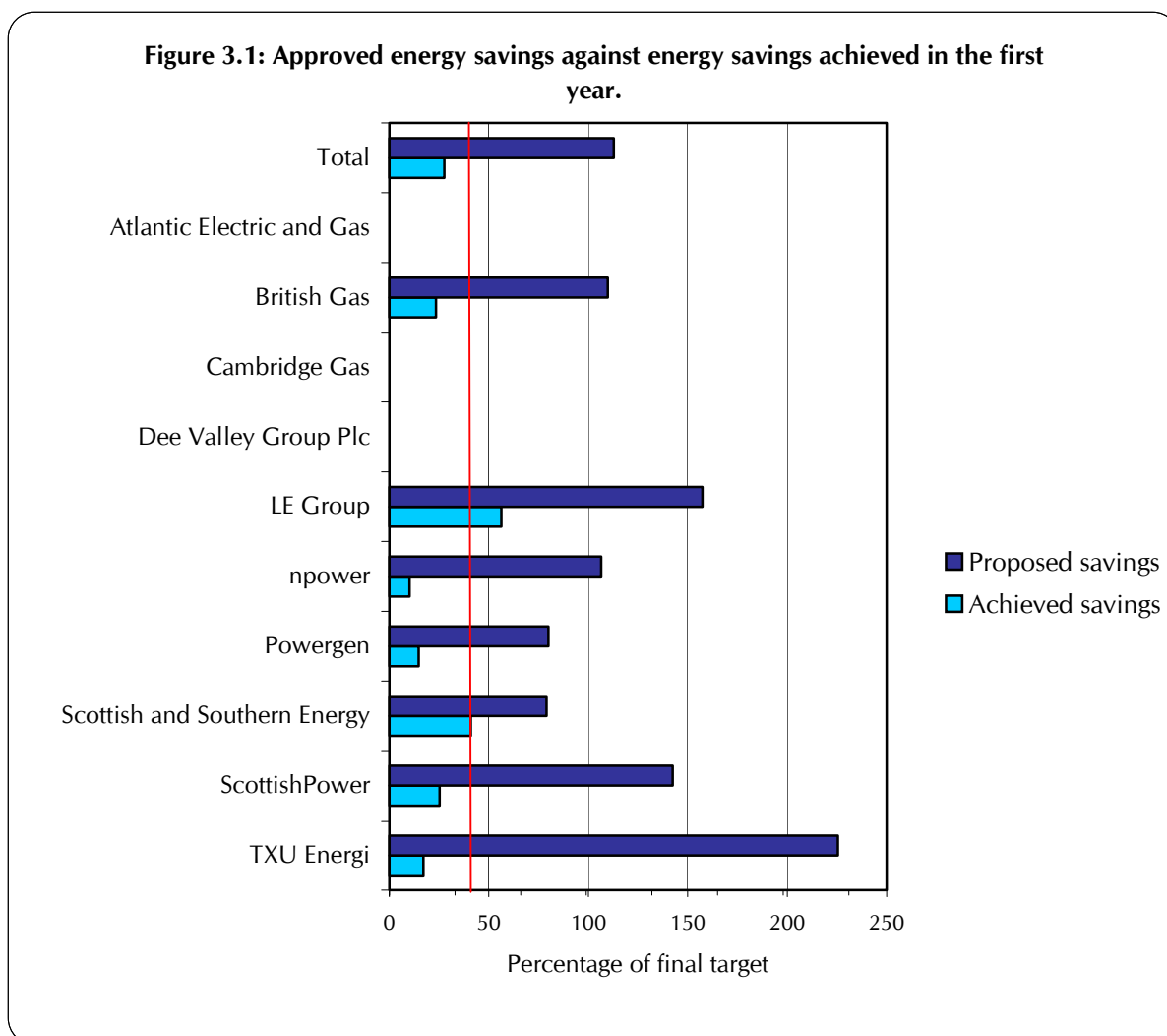
Trading

- 2.12. There has been no trading activity between suppliers in the first year of the EEC. So far supplier interest has been in those companies that are looking to pull out of the supply market. However, trading clearly provides important flexibility to suppliers in meeting their targets.

3. Each supplier's progress

- 3.1. This chapter documents the progress made by each obligated supplier during the first year of the EEC. For each of the suppliers who were set a target in January 2002, information is given on
- the measures that are expected to be delivered over the three years of the programme,
 - the progress made towards its target during the first year of the programme,
 - the proportion of the measures that have been delivered to Priority Group households, and
 - any structural changes that have occurred within the supply market over the past year, including acquisitions and customer transfers.
- 3.2. The information presented in this chapter is based upon suppliers' scheme proposals which have been granted Ofgem approval during the first year of the programme. Quarterly report returns have been used to detail the actual delivery.
- 3.3. Each supplier is set a separate gas and electricity target, according to the number of customers on each licence. For the purpose of this report these targets have been combined to show one target for each supplier.
- 3.4. The proposed and achieved savings detailed in this chapter have been compared against each supplier's predicted final EEC target. The final targets can only be predicted at this stage because the apportionment between the suppliers is based upon their average number of domestic customers over all three years of the programme. As the final targets will not be calculated until January 2004, for the purpose of this report it has been assumed that each supplier's customer numbers in 2004 will remain the same as in 2003. In the following sections, all references to a supplier's target relate to its predicted final target. In addition, the red grid lines marked on the charts represent the indicative first year target – either a third (33.3%) of their overall target or a third of the Priority Group target (16.6%) when depicting achieved savings to date.

- 3.5. Figure 3.1 provides an overview of the energy savings from approved scheme proposals and achieved energy savings for each of the obligated suppliers. The energy savings are shown as a percentage of each of the suppliers' predicted target.
- 3.6. No schemes have been completed within the first year and each of the supplier's rate of progress to date excludes any carry-over energy savings from the EESoP 3 programme. Each supplier has produced an annual report providing information on its schemes. These reports are available on request from the suppliers.
- 3.7. This Chapter fulfils Ofgem's reporting duties to the Secretary of State.

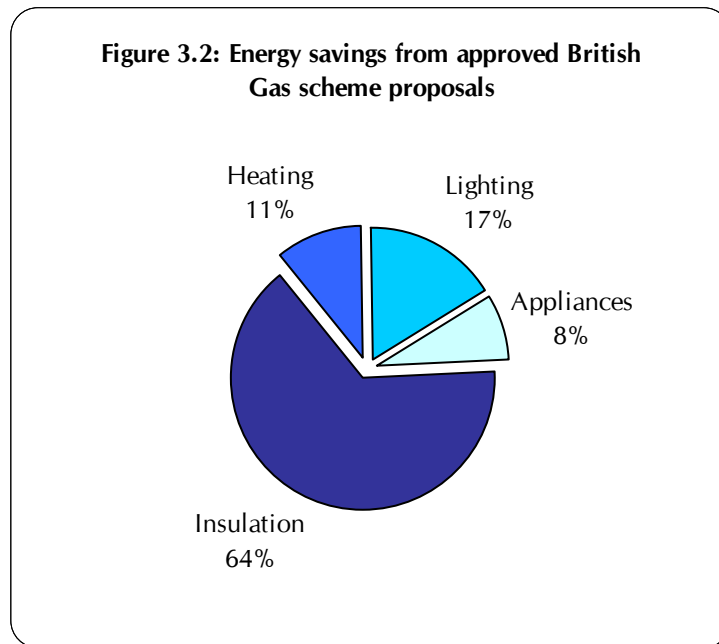


The red line represents the indicative first year target

British Gas

Proposed activity

- 3.8. British Gas has 12 scheme proposals approved by Ofgem with total energy savings that account for 110% of its predicted final target. Almost two thirds of this is from insulation measures and a larger than average 11% is from heating measures. Figure 3.2 shows a full breakdown of the approved proposed savings.

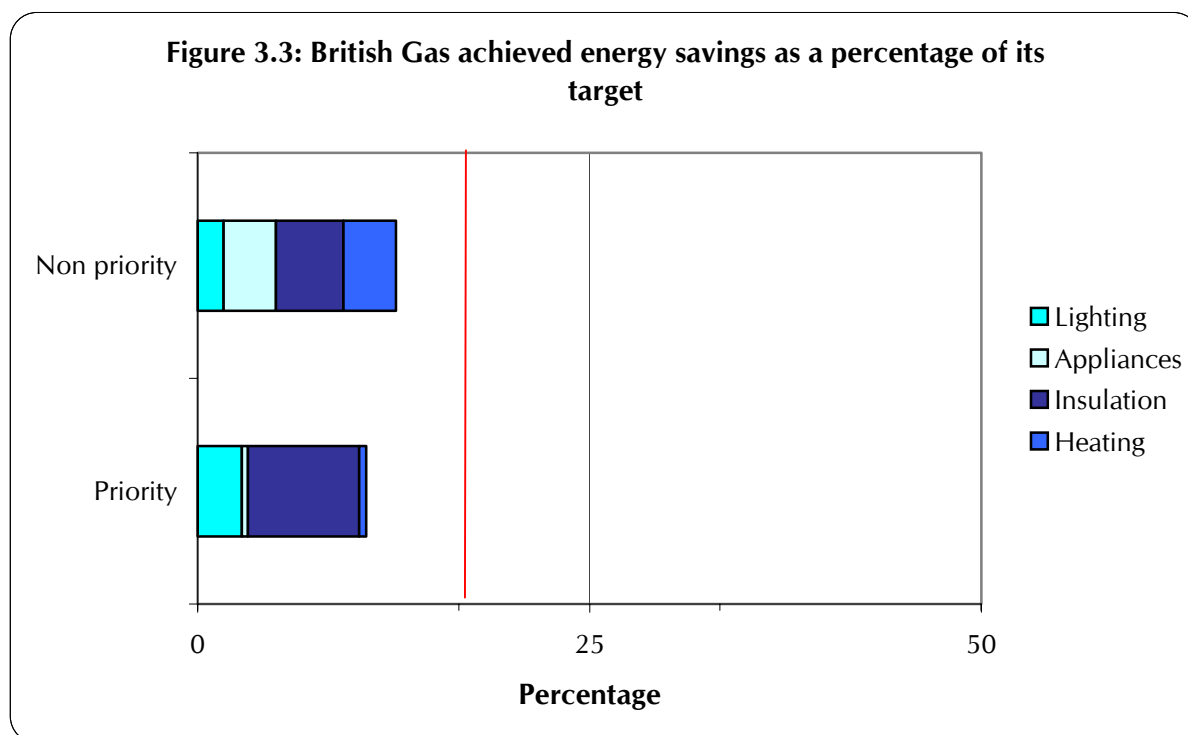


Progress so far

- 3.9. British Gas has achieved just under a quarter of its target in the first year of the EEC, with achieved savings from all of the four measure types. Insulation accounts for almost half of these energy savings and the remainder is split fairly evenly between lighting, appliances and heating.
- 3.10. Heating measures account for 16% of British Gas' achieved savings. This is notable because it represents 4% of its overall EEC target; ScottishPower is the only other energy supplier for which achieved heating savings account for more than 1% of its target.

Efforts to target the Priority Group

- 3.11. Just under half of British Gas' achieved energy savings are from measures delivered to the Priority Group. Figure 3.3 shows a breakdown of the energy savings achieved during the first year of the programme as a percentage of the British Gas target.
- 3.12. The majority of the lighting and insulation measures delivered in the first year have been installed in Priority households. As a proportion of the total energy savings achieved by British Gas, 12% are from CFLs provided to Priority customers with 7% for non-Priority customers. For insulation measures, 30% of the achieved savings are from measures installed in Priority Group households, in contrast to 18% in the non-Priority Group.
- 3.13. By comparison, non-Priority households have benefited from the majority of the heating and appliance measures delivered in the first year. Heating and appliance savings made in Priority households account for only 4% of the total savings.



Cambridge Gas

- 3.14. Cambridge Gas did not set up any schemes over the first year of the EEC. In 2002 they sold their domestic customers but not their licence. Ofgem has been liaising with Cambridge Gas regarding the ways in which they can meet their target. Cambridge Gas has indicated that it will use the options for trading to ensure compliance with its target.

Dee Valley Group

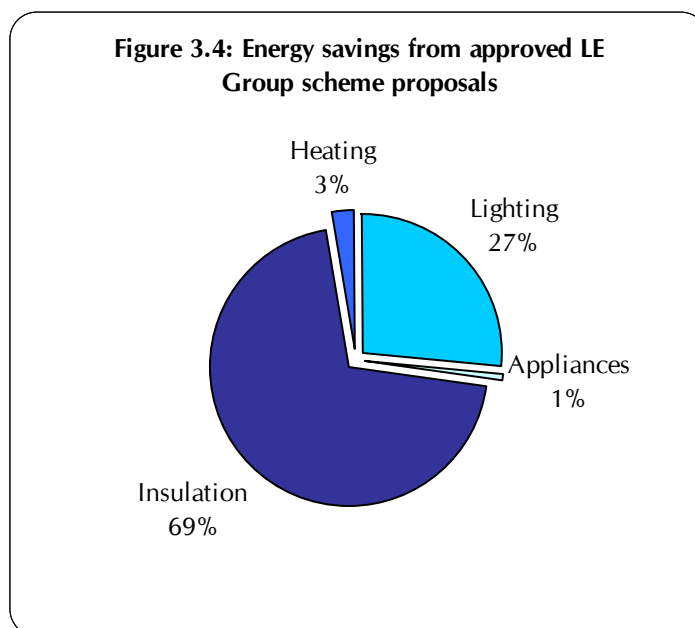
- 3.15. Dee Valley Group did not set up schemes over the first year of the EEC. In 2002 they sold their domestic customers but not their licence. Ofgem has been liaising with Dee Valley Group regarding the ways in which they can meet their target. It is likely that Dee Valley Group will use the options for trading to ensure compliance with their target.

LE Group

3.16. At the start of the EEC, separate targets were set for LE Group and Seeboard. In 2002, LE Group purchased Seeboard's supply licence and customers. LE Group's target was adjusted in January 2003, taking these changes into account. The data in the following sections reflects the energy savings from approved LE Group and Seeboard proposals and the energy savings achieved from these schemes during the first year of the EEC. Similarly, the predicted final target to which these savings are compared also includes the Seeboard customers.

Proposed activity

3.17. LE Group has 22 scheme proposals approved by Ofgem with total energy savings which account for 157% of its target. Nearly 70% of the savings are from insulation measures, with the remainder dominated by lighting. Figure 3.4 shows a full breakdown of the approved proposed savings.



Progress so far

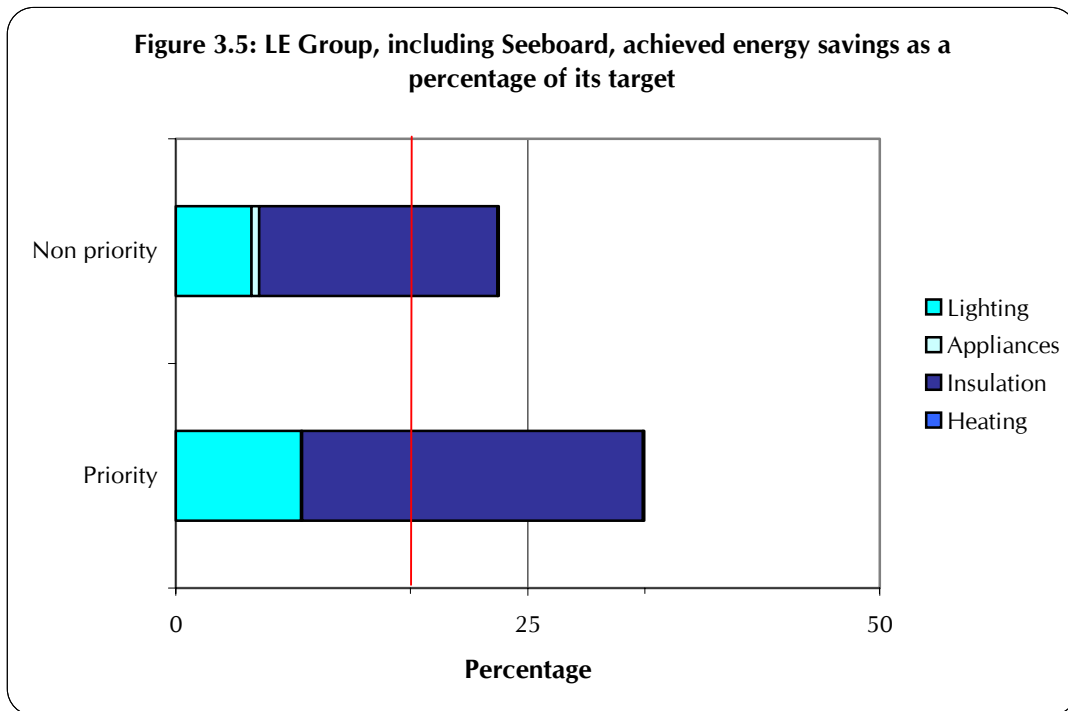
3.18. LE Group is the only supplier to achieve over half of its target, attaining 56% within the first year of the programme. LE Group has achieved energy savings using all of the four measure types, and actual delivery reflects the initial proposals.

3.19. Insulation accounts for 73% of the achieved energy savings, with the majority of this resulting from LE Group integrating with Warm Front. A further 25% of the first year's energy savings came from lighting measures. Together, these insulation and lighting savings represent 55% of LE Group's overall target.

Efforts to target the Priority Group

3.20. Of LE Group's achieved savings, 59% are from measures installed in Priority households. This equates to 33% of LE Group's overall target. Figure 3.5 shows a full breakdown of the energy savings achieved over the first year of the programme as a percentage of the LE Group target.

3.21. The savings from insulation and lighting measures are weighted more to the Priority Group, whilst the energy savings from heating measures savings are low for both Groups of customers.

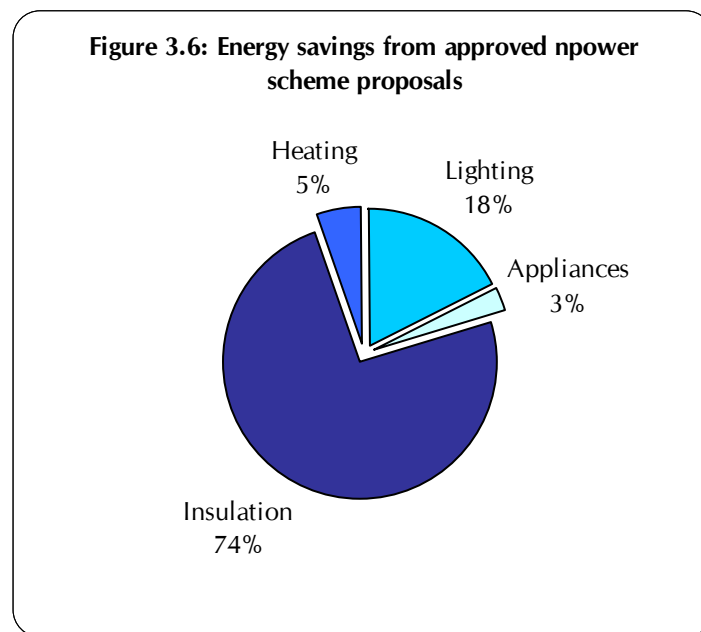


The red line represents the indicative first year target

npower

Proposed activity

3.22. npower has 14 scheme proposals approved by Ofgem with total energy savings which account for 107% of its target. Almost three quarters of this is expected to be from insulation measures. The remainder largely consists of lighting measures with lower proposed savings from heating and appliances. Figure 3.6 shows a full breakdown of the approved proposed savings.

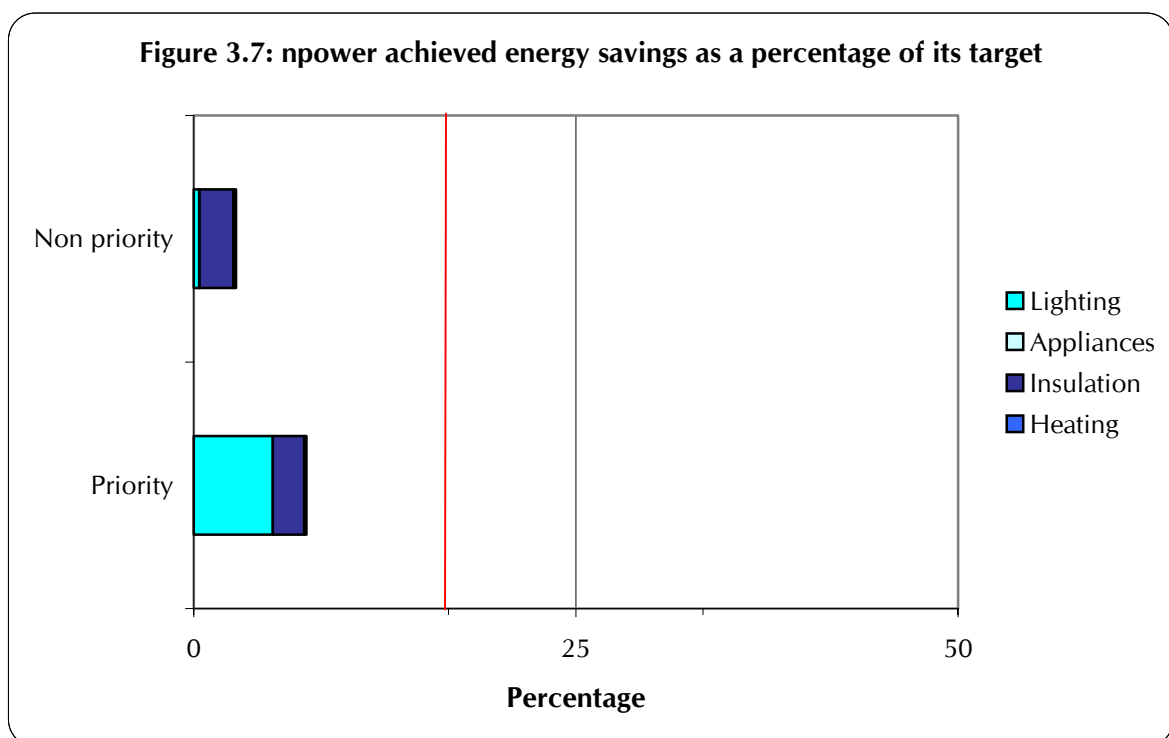


Progress so far

- 3.23. Of all the suppliers, npower has made the slowest progress towards meeting its target, reaching just 10% during the first year of the programme.
- 3.24. Whilst energy savings have been achieved from all of the four measure types, the actual delivered measures differ markedly from the initial proposals. Lighting measures account for 55% of the achieved savings and npower is one of only two suppliers for which insulation does not constitute the main type of measure. Insulation measures make up 42% of the achieved savings, with a further 3% from heating and less than 1% from appliances. It is likely that these proportions will change as npower's level of activity begins to accelerate.

Efforts to target the Priority Group

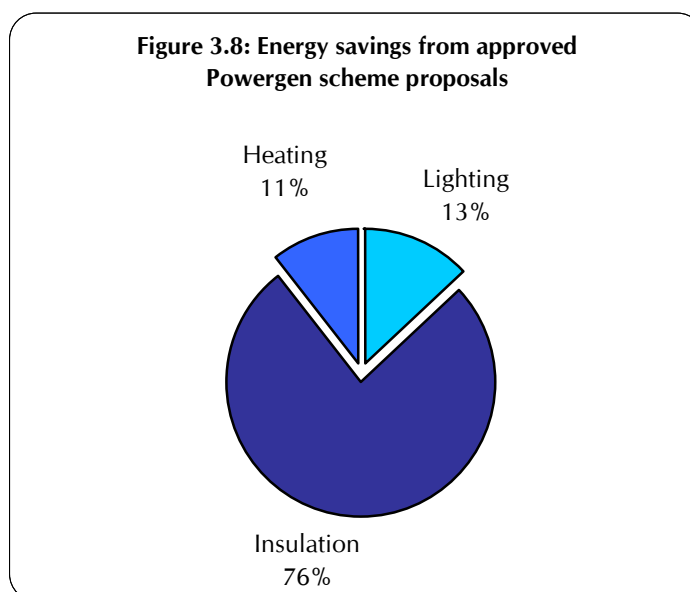
- 3.25. Almost three quarters of npower's achieved savings are a result of measures installed in Priority Group households and this is the highest proportion of all of the suppliers. Additionally, npower are the only supplier for which insulation measures do not make up the bulk of Priority Group savings.
- 3.26. The highest proportion of Priority Group savings results from lighting measures, totalling 51% as opposed to just 4% for the non-Priority Group. The savings for insulation and heating are more equally split between the Priority and non-Priority customers with the non-Priority proportion being fractionally higher in both cases.
- 3.27. All energy savings from appliances have arisen from goods provided to non-Priority households, but the level of this activity is currently low and accounts for just 0.2% of the total achieved savings. Figure 3.7 shows a full breakdown of the achieved energy savings as a percentage of the npower target.



The red line represents the indicative first year target

Powergen

- 3.28. At the start of the EEC, separate targets were set for Powergen, Amerada and TXU Energi. In October 2002, Powergen purchased Amerada's supply licence and customers and TXU Energi's customers but not its licence. Powergen's target was adjusted in January 2003, taking these changes into account. The data in the following sections reflects the energy savings from approved Powergen proposals and energy savings achieved during the first year of the EEC by Powergen, as Amerada did not set up any schemes prior to its acquisition. The predicted final target to which these savings are compared includes the Amerada target and TXU Energi customers from the end of 2002. The acquisition of these customers has led to over a two-fold increase between the initial target set for Powergen in 2002 and its predicted final target.
- 3.29. Powergen's purchase of the TXU Energi customers has prompted a number of regulatory issues, one of which relates to the EEC. Until these issues are resolved it is not possible to apportion energy savings between the two organisations from the TXU schemes that were carried on by Powergen. Consequently Powergen's progress reported here is a slight understatement.



Proposed activity

- 3.30. Powergen has 7 scheme proposals approved by Ofgem with energy savings which account for 80% of its target.
- 3.31. More than three quarters of the approved activity is from insulation measures, which is the highest of all the suppliers. The remainder consists of fairly equal amounts of lighting and heating activity. Powergen have had no schemes involving appliances approved within the first year of the programme. Figure 3.8 shows a full breakdown of the approved proposed savings.

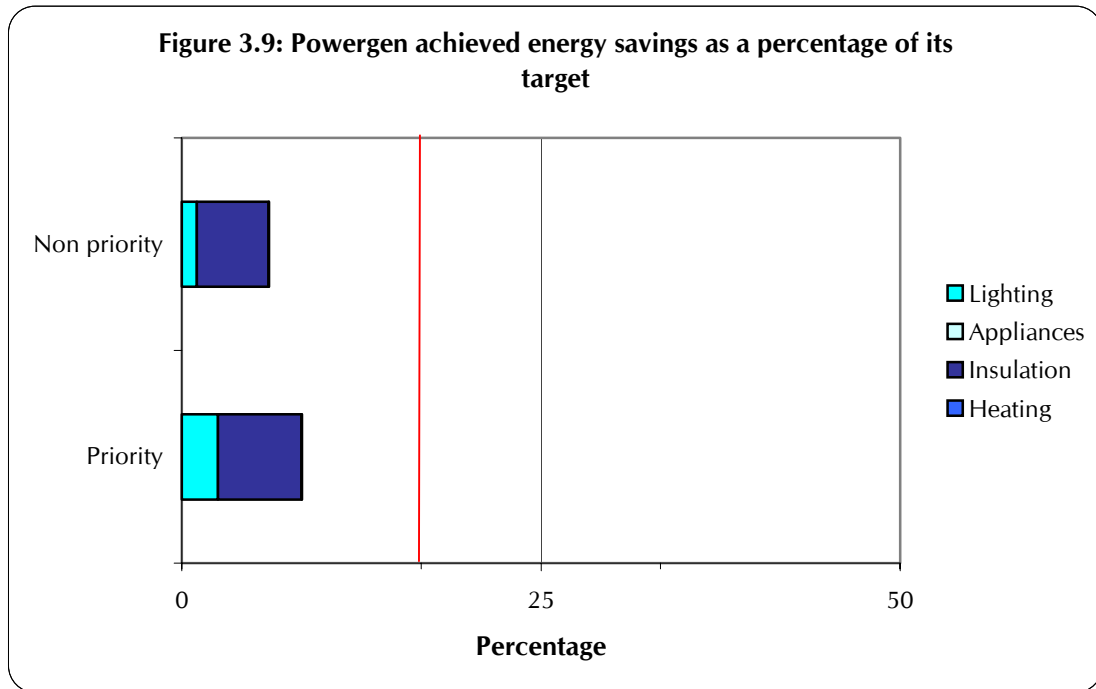
Progress so far

- 3.32. Powergen has achieved 14% of its target in the first year of the EEC, with energy savings accruing from insulation, lighting and heating measures. Insulation accounts for three quarters of the achieved savings. In a marked difference to its proposals, the remaining achieved savings consist mainly of lighting measures with less than 1% from heating measures so far.

Efforts to target the Priority Group

- 3.33. Of Powergen's achieved energy savings, 58% result from measures delivered to Priority Group customers. The highest proportion of these savings is from insulation measures – installations in Priority households account for 40% of the total achieved, with non-Priority customers benefiting from 35%. There is a more marked difference between the lighting savings for the two customer groups - Priority savings account for 17% and non-Priority savings account for 7%.

3.34. Figure 3.9 shows a full breakdown of the energy savings achieved during the first year of the programme as a percentage of the Powergen target.

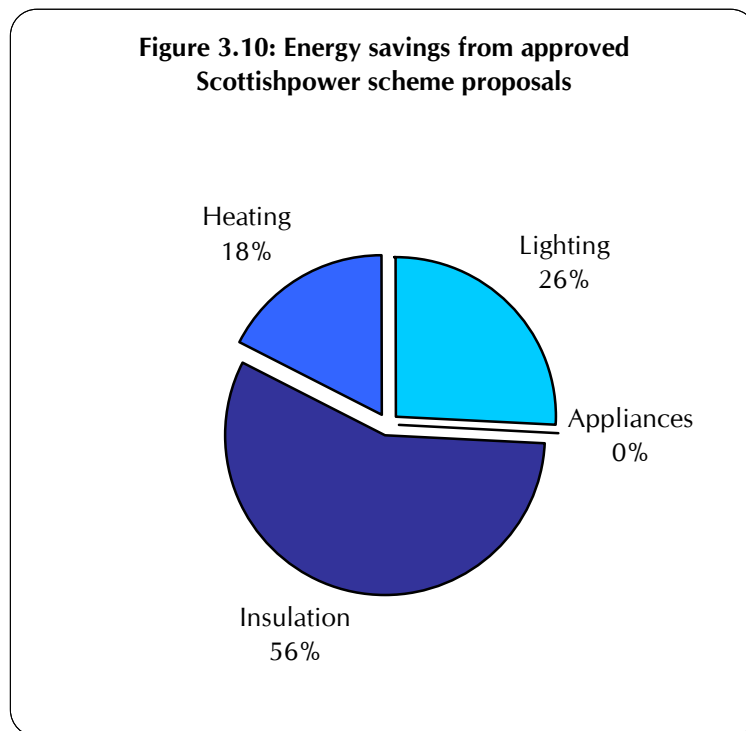


The red line represents the indicative first year target

ScottishPower

The proposed activity

- 3.35. ScottishPower has the fewest scheme proposals approved by Ofgem – a total of 4. However, these account for 142% of its target. These large-scale schemes cover each of the four measure types. Figure 3.10 shows a full breakdown of the proposed savings.



- 3.36. Whilst insulation measures constitute the largest proportion of the approved savings, nearly 20% of ScottishPower's proposed activity is comprised of heating measures. This is the highest proportion of all the energy suppliers.
- 3.37. Lighting measures make up 26% of the savings, with appliances being responsible for less than 1% of the proposed activity.

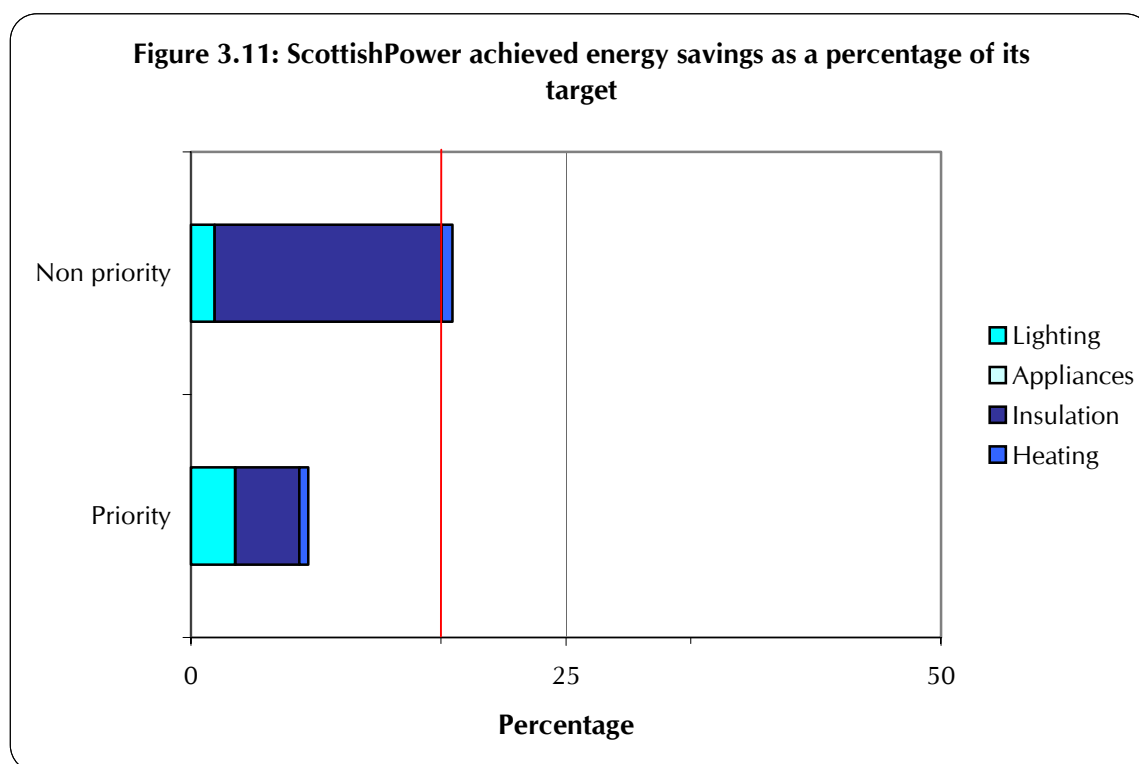
Progress so far

- 3.38. ScottishPower has achieved just over a quarter of its target in the first year of the EEC although the measures delivered differ markedly from the initial proposals.

- 3.39. Over three quarters of the achieved savings are from insulation measures, with the remainder consisting largely of CFLs. ScottishPower is one of only two suppliers for which installed heating measures account for more than 1% of its overall target. This equates to 5% of the total savings made by ScottishPower in the first year.
- 3.40. The delivery of appliances matches the proposed rate, at less than 1%.

Efforts to target the Priority Group

- 3.41. Nearly a third of ScottishPower’s energy savings achieved in the first year have been made in Priority Group households. Figure 3.11 shows a full breakdown of the achieved energy savings as a percentage of the ScottishPower target.



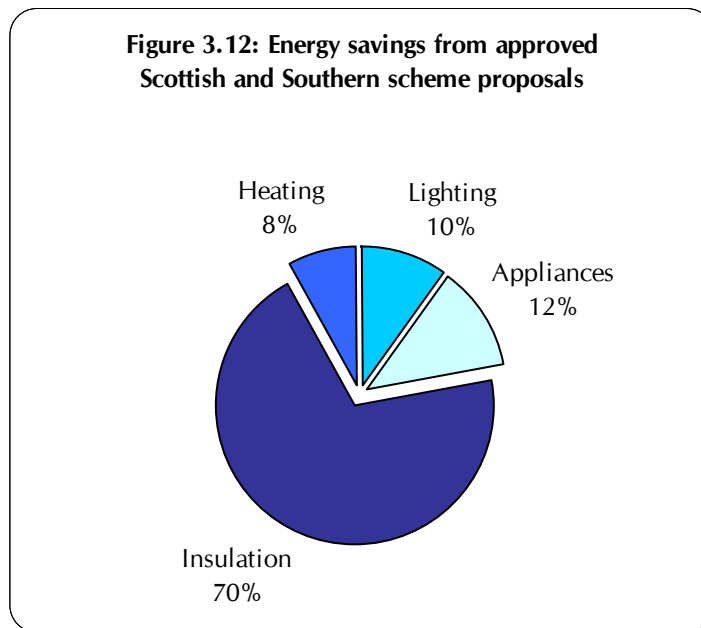
- 3.42. Insulation measures installed in Priority and non-Priority households account for the majority of the energy savings achieved. Savings from non-Priority measures account for a greater proportion – 60% compared to 17% for Priority installations. By comparison, the majority of the lighting measures delivered in the first year have been installed in Priority households.

3.43. The energy savings resulting from heating measures are more evenly split between the two customer groups. Appliances account for less than 1% of the savings overall with the vast majority of recipients being Priority customers.

Scottish and Southern Energy

The proposed activity

- 3.44. Scottish and Southern Energy has 13 scheme proposals approved by Ofgem with total energy savings which cover 79% of its target. Figure 3.12 shows a full breakdown of the proposed savings.



- 3.45. In a similar vein to other suppliers, the majority of Scottish and Southern Energy's proposed energy savings are from insulation measures. However, of all the other suppliers, lighting measures account for the lowest proportion of the proposed savings and there are notably high savings planned to come from appliances.

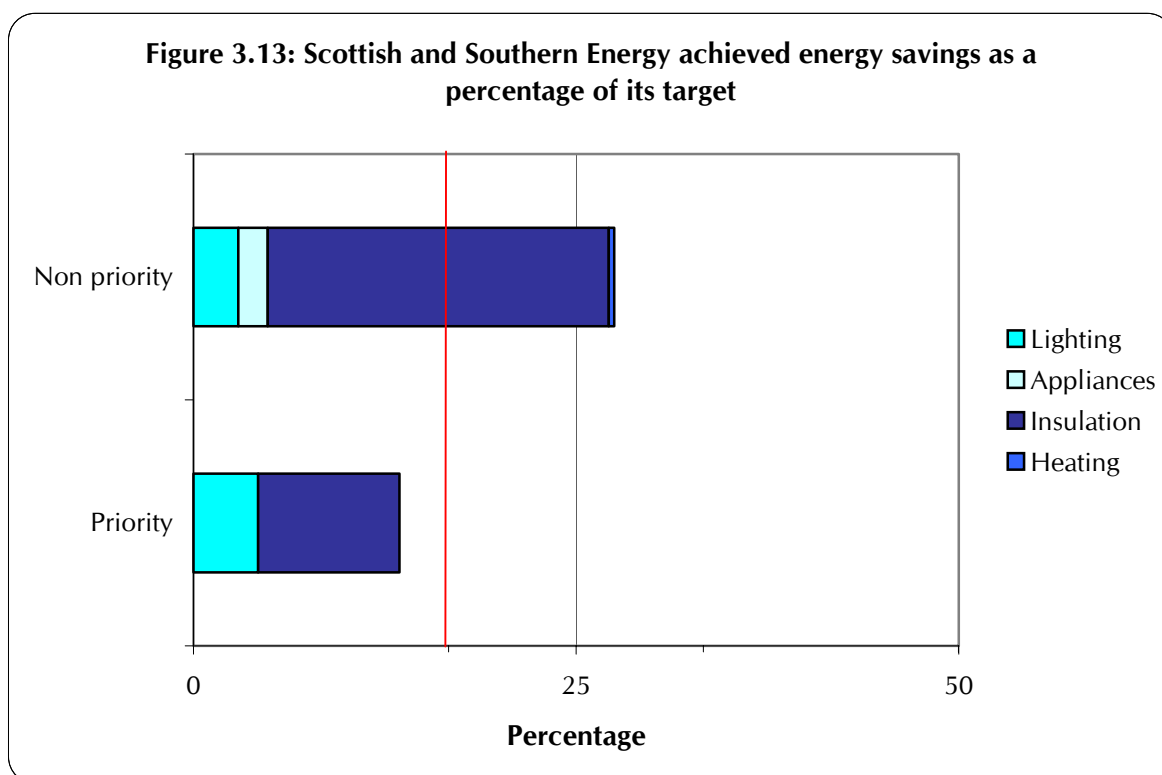
Progress so far

- 3.46. Scottish and Southern Energy have reached 41% of their supplier group target during the first year of the programme. Savings have been achieved from each of the four measure types, although in different proportions to that proposed.
- 3.47. Insulation accounts for over three quarters of the achieved energy savings, which equates to almost a third of Scottish and Southern Energy's overall target. The

remainder largely constitutes lighting and appliances with a small amount from heating installations.

Efforts to target the Priority Group

- 3.48. Of Scottish and Southern Energy's achieved energy savings, 33% are from measures delivered to the Priority Group. Figure 3.13 shows a full breakdown of the achieved energy savings as a percentage of the Scottish and Southern Energy target.
- 3.49. The highest proportion of the savings for both the Priority and non-Priority Group are from insulation measures with the majority being installed in non-Priority households – 54% compared to 23% from the Priority installations. More lighting energy savings have been achieved in the Priority Group, whilst all of the heating and appliance energy savings result from non-Priority customers.



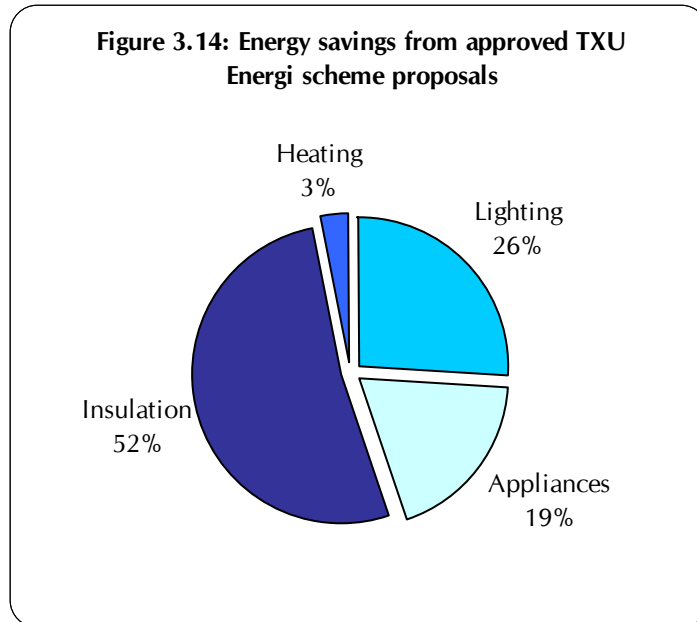
The red line represents the indicative first year target

TXU Energi

- 3.50. TXU Energi's customers were purchased by Powergen in October 2002. Its supply licences are now with the administrator and the company has ceased trading. Because the EEC target is a relevant requirement on suppliers' licences TXU Energi still has an energy saving target to meet under the EEC. This section demonstrates that there is a shortfall in TXU activity although the energy savings achieved by TXU Energi might increase slightly after the energy savings from its schemes continued by Powergen are finally apportioned between the two organisations. Ofgem will continue to liaise with the administrator about the fulfilment of TXU Energi's EEC target.
- 3.51. Although not legally obliged, Powergen has noted that there will be a shortfall in TXU Energi's activity and has volunteered to make up the difference in total energy savings although not to meet the requirement that at least half of the TXU Energi savings need to come from the Priority Group. The Statutory Instrument states that supplier activity towards its energy efficiency target will not count unless at least half is in the Priority Group. Clearly Powergen's offer would not fully meet TXU Energi's legal obligation. This obligation remains with the administrator.
- 3.52. In this section, the predicted final target to which the energy savings are compared reflects the transfer of the customers to Powergen for the second and third years of the EEC. This has led to a significant decrease in the predicted final target compared to the initial target set for TXU Energi in 2002.

Proposed activity

- 3.53. TXU Energi had 8 scheme proposals approved by Ofgem with total energy savings that accounted for 225% of its target. Figure 3.14 shows a full breakdown of the approved proposed savings.



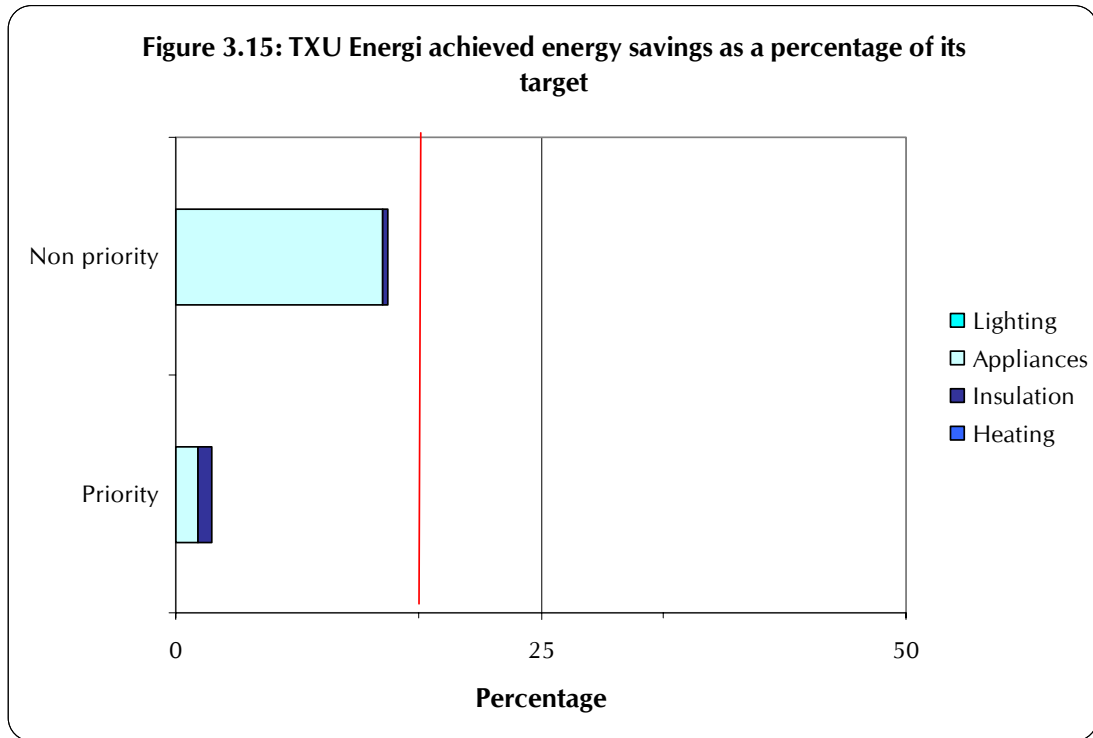
- 3.54. Of all of the suppliers, TXU Energi had the lowest proportion of their proposed activity from insulation measures and the highest proportion from appliance measures. Lighting measures account for 26%, with the remaining 3% made up of heating measures.

Progress so far

- 3.55. In the first six months of the EEC TXU Energi achieved 17% of its target. It is one of only two suppliers for which insulation savings do not account for the majority of the achieved savings to date. Instead, appliances account for almost all of the achieved savings with insulation measures making up the remainder.
- 3.56. In the first six months TXU Energi's lighting scheme had not started to deliver energy savings for the group and no measures had been installed under their heating programme.

Efforts to target the Priority Group

3.57. Of all of the suppliers, TXU Energi has the lowest proportion of achieved savings in the Priority Group - 15% - which equates to 2% of its overall target. Figure 3.15 shows a full breakdown of the achieved energy savings as a percentage of the TXU Energi target.

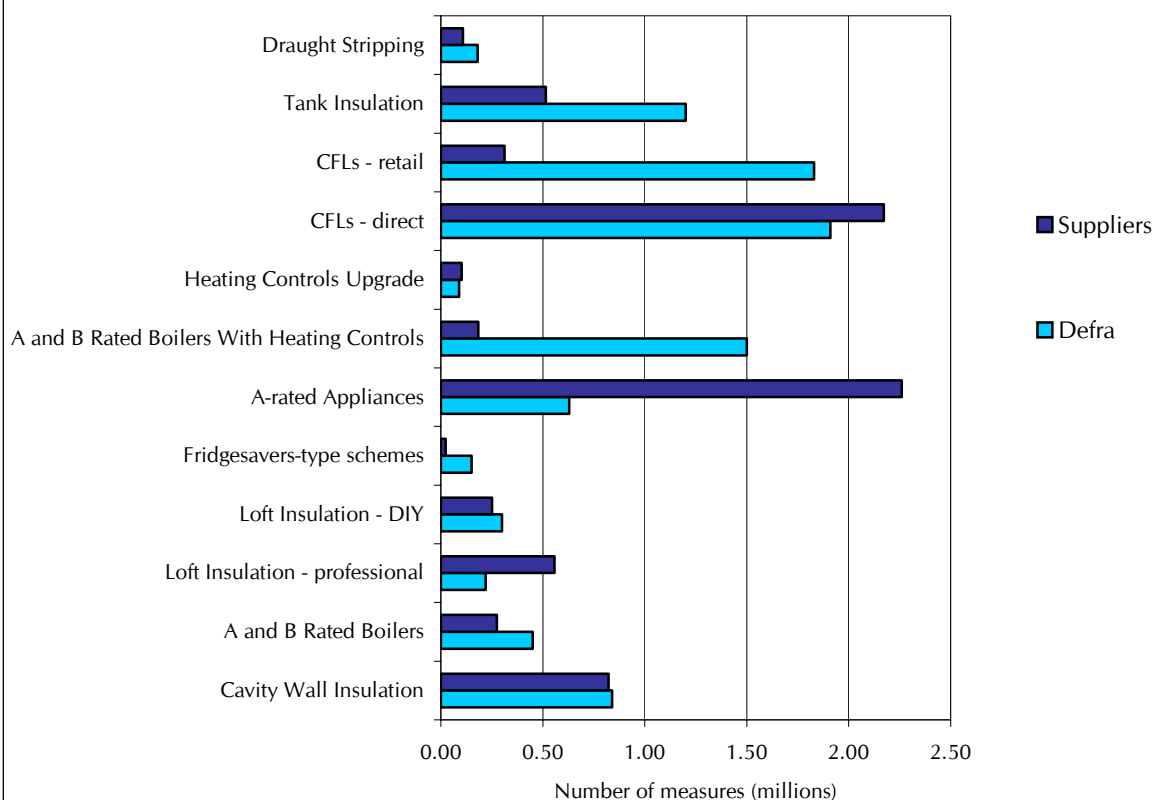


The red line represents the indicative first year target

4. Comparison with Defra's target-setting model

4.1. To derive the target for the EEC Defra developed a bottom-up model to illustrate the types and numbers of measures that they estimated could be delivered for a cost of £3.60 for each domestic gas and electricity customer per annum. This chapter compares the measures that Defra expected to be installed against the suppliers' scheme proposals. Supplier activity could not be expected to be the same as the indicative mix of measures in Defra's macro target setting model. In addition, imposing an energy saving target on suppliers encourages them to innovate. Consequently suppliers will use technologies to meet their targets that did not feature in the target-setting model. At this stage, at the end of the first year, it is not possible to provide any certainty on what measures will be delivered by the suppliers over the whole of the EEC. The data presented in this chapter are derived from the results of the scheme submissions and quarterly

Figure 4.1 Comparison of Defra's illustrative mix with an estimate of proposed measures



Note: The number of CFLs has been divided by 10

progress reports presented to Ofgem during the first year.

Insulation

- 4.2. Figure 4.1 shows that the amount of cavity wall insulation suppliers intend to carry out is close to that estimated in the model. Suppliers have shown a large interest in developing schemes offering cavity wall insulation because it is a measure which provides large cost effective energy savings. Suppliers have indicated that they intend to carry out broadly similar amounts of cavity wall insulation jobs for both the Priority and non-Priority Groups, with a slightly higher number in the Priority Group.
- 4.3. The suppliers' schemes suggest that loft insulation will be more popular than anticipated by Defra in its illustrative mix. Much of this work is being delivered as part of large insulation programmes that the suppliers have set up. As with cavity wall insulation slightly more than half of the loft insulation measures are expected to go to the Priority Group.
- 4.4. Although not apparent in the illustrative mix of measures the working assumption that the model used was that roughly half of all loft insulation would be installed in roof spaces with no pre-existing insulation. Suppliers' schemes, however, suggest that less than 10% of all professional installations will be in roof spaces with no pre-existing loft insulation. The majority of the potential work available therefore involves 'loft top-up'. This proportion is borne out by the research carried out by the BRE⁵. This difference between the model and the anticipated outturn has large implications for the cost-effectiveness of this measure. Loft insulation in roof spaces with no previous insulation has much larger energy savings associated with it than top-up loft insulation for a similar cost.
- 4.5. DIY loft insulation is broadly in line with the target-setting model. Some suppliers have set up successful retail schemes which have led to a large increase in the sales of loft insulation. This measure is amongst the most cost effective for the suppliers and hence suppliers have explored a number of

⁵ BRE, *Carbon emission reductions from energy efficiency improvements to the UK housing stock*, 2001.
The Energy Efficiency Commitment annual report
Office of Gas and Electricity Markets

different routes to market, including mail order schemes. Almost all of the energy savings delivered in this way will be from the non-Priority Group.

- 4.6. Hot water tank insulation is anticipated to be installed in considerably fewer homes than expected by Defra's illustrative mix. Suppliers tend to install tank jackets where possible when delivering other insulation measures. It is cost effective and suppliers are looking to employ this measure in their schemes, although not at the levels predicted in Defra's model.

Lighting

- 4.7. Suppliers are expected to deliver slightly more CFLs through the mail order delivery route than anticipated in the illustrative mix. More than half of the lamps delivered this way will be delivered to the Priority Group for free. Most of the suppliers have also set up mail order CFL schemes where consumers purchase CFLs at a reduced price to those sold by retailers. Where a supplier is selling lamps to the consumer Ofgem requires suppliers to offer a choice of lamps up to a maximum of six; where a supplier is giving out lamps for free suppliers are limited to sending out four per household. These schemes offer suppliers cost effective energy savings and consequently most of the suppliers have such a scheme. Most of the lamps delivered through the EEC are 100 watt equivalent, as these offer the suppliers the most cost effective energy savings.
- 4.8. Suppliers are not reaching anything like the anticipated level of activity in retail lamp schemes, and this is not a result of significantly higher than anticipated levels of activity in mail order lamps. The fact that the suppliers have not reached the level indicated in the illustrative mix does not mean that there is little interest in this measure. Suppliers have set up agreements with the major retailers to discount existing lines of CFLs as well as introducing CFLs into a number of new outlets. Suppliers continue to show an interest in this measure, but these schemes are unlikely to reach the level shown in the indicative mix.

Appliances

- 4.9. Some suppliers are running very successful retail appliance schemes offering A-rated cold and wet appliances. These schemes provide the consumer with an incentive to choose the more energy efficient model or for trading in their old

model for a new energy efficient one. These schemes are going a long way to transforming the sales in these outlets. Almost all of the energy savings delivered this way are to consumers in the non-Priority Group.

- 4.10. The fridgesaver-type activity represents the other side of the coin, namely that it falls below the level anticipated in the target setting model. These schemes involve the suppliers replacing damaged cold appliances in Priority Group households with an A-rated model for around £25. It is an expensive way for suppliers to deliver energy savings and as a consequence there has only been a little interest from the suppliers, although the interest amongst consumers, and social housing providers, is high and consequently demand is outstripping supply.

Heating

- 4.11. The suppliers' work on boilers is close to the anticipated level. The overall number of boilers delivered by the suppliers is expected to be around 500,000, with a slightly higher number of controls packages available. Boiler activity tends to be focused on suppliers that already have a direct link with an installation business or with suppliers running heating schemes with social housing providers. Work on providing boiler replacements is expected to be evenly split between the Priority and the non-Priority Groups. Boiler replacements with heating controls upgrades are expected to be more focused on the non-Priority Group customers.

Other measures

- 4.12. The majority of the measures being employed by the suppliers in meeting their target are represented in the target setting model. However, there are other measures that the suppliers have received approval for, or are considering, but in some cases they have yet to be incorporated in schemes.
- 4.13. Defra's consultation paper of August 2001 suggested that fuel switching schemes would be permissible under the EEC. To date, suppliers have indicated that they are interested in carrying out these schemes, but not much work has actually been undertaken. The energy savings available are high, because the fuel standardisation factors are based on the carbon content of each of the fuels.

However, the cost of delivering energy efficiency measures through this route is high and as a consequence Ofgem has liaised closely with the suppliers on the mechanisms by which fuel switching schemes are likely to be undertaken. This work has shown there are some delivery routes where additionality can be clearly demonstrated, such as replacing old heating systems which require a lot of maintenance, and others where additionality would be questionable.

- 4.14. There are various mechanisms by which suppliers can carry out these schemes. Some of the work is to upgrade electric 'islands' of homes which have missed out on taking advantage of gas central heating. Other suppliers are trying to tie in with independent gas transporters, who are looking to extend the gas network, to offer fuel switching schemes to newly connected properties.
- 4.15. Some suppliers have also expressed some interest in community-scale CHP. In these schemes the suppliers support the development of a CHP unit to provide heat and electricity for a number of homes. While these schemes do lead to energy savings their development can be very time consuming and as a consequence this has tended to push the suppliers to look for other forms of energy savings.
- 4.16. Suppliers have also looked to use a number of other measures. These include dedicated luminaires (light fittings which will only take the most efficient lamps), radiator panels and jug kettles with a water gauge. A small amount of solid wall insulation will also be installed in homes under the EEC.

Innovative measures

- 4.17. The measures mentioned above, although not mentioned in the illustrative mix, are not innovative in the sense of using new technologies. However, some suppliers have been looking to use innovative solutions to meet part of their target and have worked with developers to bring new energy efficiency products to the market.
- 4.18. Several suppliers have looked at using ground source heat pumps to provide warmth from the ground to provide a source of heat. The scale of the suppliers work varies considerably from a handful of homes to a scheme involving up to a thousand homes. The largest energy saving from these schemes comes when the

units are employed in areas that are not connected to the gas grid because of the fuel standardisation coefficients used to accredit energy savings from suppliers' schemes. To date the take up of this technology in the UK compared to other countries is low. It can therefore be seen that the EEC gives the suppliers flexibility to consider introducing new heating solutions to the UK.

- 4.19. At the other end of the scale of energy consumption, some suppliers have been considering working with the manufacturers of consumer electronics to make their products more energy efficient. While these products do not consume much electricity individually they are used by a great number of households. Their combined consumption, when in use and when left on standby, could potentially lead to a sharp increase in household electricity demand.
- 4.20. The other innovative measure that the suppliers are looking to employ on a very small scale is solar thermal water heating. Like the other innovative measures it is costly and suppliers are looking to market this to consumers who are able to pay for the measure.
- 4.21. Suppliers have expressed an interest in the development of domestic combined heat and power(DCHP). Ofgem will work with suppliers to ensure that an appropriate energy saving can accredited to this measure when it comes to the market. To help with this work Ofgem is a member of the Carbon Trust's small scale CHP field trial advisory panel.

The fuel mix

- 4.22. The use of fuel standardisation factors, based on the carbon content of the fuels, in setting the overall EEC target, and consequently in the approval of measures, has given the suppliers an incentive for targeting consumers' homes which use the more carbon intensive fuels. For instance, the cost of insulating an electrically-heated, as opposed to a gas-heated home, with cavity wall insulation is broadly similar. However, the energy savings suppliers are accredited with are almost twice as large from electrically-heated homes. This has encouraged suppliers to insulate as many electrically heated homes as possible. Accordingly, the energy savings delivered by the suppliers through insulation in electrically-heated homes is expected to be higher than in the illustrative mix.

- 4.23. Indeed, overall electricity savings are anticipated to be higher than those outlined in the illustrative mix. This increase is derived from, as noted above, higher levels of insulation activity, and also much higher sales of appliances through retail outlets. The energy saving predicted from CFLs exceeds that in the illustrative mix. However, as noted above, the number of CFLs expected to be delivered is actually lower, reflecting the dominance of the 100-watt equivalent lamps in the suppliers' schemes, as opposed to the mix of wattages in Defra's target setting model.
- 4.24. Energy savings from gas-heated homes are expected to be slightly higher than the illustrative mix of measures. This primarily reflects the increased levels of activity in cavity wall and loft insulation. Energy savings from heating schemes are expected broadly to reflect the illustrative mix.
- 4.25. The energy savings from insulation in the other fuels is considerably lower than that anticipated in the illustrative mix. This might reflect the suppliers' historical links to electricity consumers over the new fuels that were introduced, such as coal, oil and LPG.

Targeting the Priority Group

- 4.26. At least 50% of each supplier's overall energy savings must be met within the Priority Group, defined as those households receiving income related benefits and tax credits. 45% of the energy savings made in the first year of the EEC were in the Priority Group.

Social housing providers

- 4.27. Many suppliers have joined forces with social housing providers, predominantly to offer insulation. Suppliers are able to claim all the energy savings from their work with Local Authorities and Housing Associations providing they can clearly demonstrate that their contribution is 'additional'. This enables the suppliers to target large numbers of properties and lever in additional funds. It is also a cost-effective way to target the Priority Group. The importance of this delivery route is clear, as partnering with social housing providers is expected to account for:

- (a) roughly 43% of the overall energy efficiency savings,

- (b) just over half of all insulation work in the EEC,
 - (c) around 30% of all lighting measures,
 - (d) two thirds of all measures delivered to the Priority Group.
- 4.28. The amount of measures delivered to the Priority Group with social housing providers varies by each supplier. However, there is a clear dependency on this route, especially in terms of targeting the Priority Group. This dependency may also account for the slight shortfall in targeting the Priority Group in the first year, due to the length of time needed to set up these partnerships.
- 4.29. Another way suppliers have effectively targeted the Priority Group is through Warm Zones. Warm Zones are a government backed initiative to identify a particular area with acute levels of fuel poverty. Partnerships are set up to provide energy efficiency measures systematically to the households within this area. There are five designated zones across the UK which are undergoing a three year pilot scheme. Suppliers have tied in with each of these five schemes.
- 4.30. Some suppliers have also set up independent initiatives which target households in deprived areas. Working with local agencies suppliers offer energy efficiency solutions to all households in the area. Through these schemes and the Warm Zones it can be seen that suppliers are aiming to target those in the Priority Group, many of whom are likely to be in fuel poverty.

Cost contributions

- 4.31. Defra's target setting model estimated the number of measures to be provided to both the Priority and non-Priority Group customers, bearing in mind the cost contributions which can be paid by, or levered in to assist, each group. When suppliers submit schemes for approval they are required to detail their cost contribution to the scheme to help demonstrate additionality.
- 4.32. For the majority of schemes, suppliers are expecting a cost contribution from either the customer or a third party, such as a social housing provider. When partnering with social housing providers suppliers can often lever in around 50% of the cost from the project partner and pay the remainder themselves so that no cost contribution is required from the Priority Group customer.

4.33. It is expected that roughly 15% of the measures provided by suppliers over the course of the programme will be fully funded by the supplier alone. These measures are predominantly targeted at Priority Group customers. The majority of these 'free' measures are CFLs mailed to customers or distributed by charities. It is interesting to note that suppliers are also planning to deliver some insulation and heating measures to the Priority Group without requiring a cost contribution, notably through tying in with Warm Front.

5. The effects of the incentives on the overall carbon savings of the EEC

5.1. An incentive was included in the EEC to encourage schemes to offer 'energy service' activity and an enhancement was included for the energy savings from A-rated appliances. The energy service incentive has taken the form of an uplift in energy savings to be accredited. While these can promote best practice and help transform markets they also result in a loss of carbon benefits from the programme overall. This section analyses this effect.

Energy services

5.2. Energy service activity in the EEC has been defined as an activity that includes:

- two measures, one of which must be insulation to the loft or the walls, a an improvement to the primary heating system such as a boiler or CHP,
- an assessment of the premises,
- relevant advice to the consumer,
- an offer to the consumer for the option of deferring payments for the measures.

5.3. If these criteria are met, the scheme will be accredited with an additional 50% of the energy savings. The energy savings eligible for uplift cannot make up more than 10% of each supplier's overall target. As a consequence, the maximum effect this activity could ever have on the overall target is a loss of 5% of the energy savings and a similar amount of carbon savings.

5.4. Information we have from the suppliers has shown that there is some interest in energy service activity that meets the criteria for the uplift. Of the suppliers with an EEC target three have submitted schemes that would take them over the 10% threshold if take up is as forecast. Of the remaining suppliers one has indicated that it intends to carry out some energy service activity. The others to date have shown no interest in energy service activity.

5.5. At this stage it is not clear how successful these schemes will be, but if they are, the consequence of providing an uplift will be to reduce the carbon benefits of

the EEC by 3-4%. Ofgem will closely monitor the success of these schemes and report on them in later years of the EEC. It is worth noting that the suppliers' interest in energy service activity in the EEC is considerably higher than in the EESoP 3 programme, which also gave an incentive to energy service activity⁶. Perhaps this demonstrates that the increased scale of the programme makes taking advantage of incentives more worthwhile for suppliers.

Appliances

- 5.6. There is also an energy saving enhancement available for A-rated appliance schemes. For this type of activity suppliers are rewarded with a 60% uplift in energy savings for each measure. Energy savings from appliances were expected to be very low and as a consequence there was no cap imposed on this form of activity.
- 5.7. However, as highlighted in Chapter 4, suppliers have set up successful large-scale appliance schemes with national retailers. These, along with the smaller appliance schemes, are expected to lead to energy savings of around 2.5 TWh, or, with the uplift, 4 TWh over the three years of the EEC. This uplift therefore represents about 2½% of the overall potential carbon savings from the EEC.

⁶ The incentive in EESoP 3 worked in a slightly different way. In EESoP 3 energy savings from the measures employed by the suppliers were moderated in relation to their cost contribution. However, energy suppliers could claim 100% of the energy saving, regardless of the cost contribution, if the measures were delivered through an energy service route. Although there was no restriction on the measures that suppliers could employ in EESoP 3 energy service schemes, the schemes were required to offer a financial package.

6. The interaction of the EEC with other policies

- 6.1. Defra's EEC Consultation Proposals, August 2001, stated that there would be benefits from the suppliers' EEC programmes linking up with other energy efficiency and fuel poverty initiatives. It went on to say that the energy efficiency measures paid for through HEES or other Government programmes would not be eligible to count towards any supplier's target. Before the EEC began, Defra confirmed to Ofgem that suppliers would be able retrospectively to purchase measures from Warm Front, as long as the money from the sale was used to install additional energy efficiency measures.
- 6.2. In setting up their schemes suppliers must demonstrate to Ofgem that it is their activities that have resulted in an improvement in energy efficiency, i.e. that the measures are 'additional' and can be considered qualifying action under the EEC. Ofgem has spent a considerable amount of time over the past year identifying other relevant programmes and the potential for them to interact.
- 6.3. There are a number of other Government initiatives that have similar objectives to the EEC and consequently have the potential to integrate. These are Warm Front, Welsh HEES, the Scottish Executive Central Heating programme, Warm Deal, Community Energy and Clear Skies. Each programme has different objectives such as a social or environmental focus or promotion of a specific technology. Ofgem has spent time devising procedures for suppliers with an EEC target to integrate their activities with these programmes. This has been done in consultation with Defra, National Assembly for Wales, Scottish Executive, the Energy Saving Trust and the DTI.
- 6.4. Warm Front, and its devolved equivalents, offer grants for households to provide a package of energy efficiency and heating measures. To qualify, householders need to be in receipt of certain income related benefits or tax credits.
- 6.5. One mechanism by which suppliers may tie in is by purchasing measures already installed under Warm Front. The managing agents can then use this money to help meet its target in terms of the number of homes assisted. The EEC is an important part of the Government's Climate Change programme and how

Warm Front and EEC integrate could have implications for the carbon savings from the programmes. In the first year of the EEC, Ofgem approved one scheme to interact with Warm Front involving the supplier purchasing measures. The Warm Front managing agent agreed to use the money from the sale of the measures to purchase like measures (i.e. money from the sale of insulation will be used to fund further insulation work). The managing agent will report the sale to Defra to avoid double counting of measures. Another such scheme has been approved since April.

- 6.6. The Community Energy programme, which runs until March 2005, is designed to support the refurbishment of existing, and the installation of new, community heating schemes. Defra has allocated £50 million to be spent on such projects. Community Energy and the EEC both have overall carbon saving targets. Consequently when suppliers tie in with Community Energy CHP projects they can only claim energy savings in proportion to their cost contribution. There has been some limited interest from suppliers in tying in with Community Energy, although no schemes have been submitted.
- 6.7. The Clear Skies programme was introduced in January 2003 and runs until March 2005. Some suppliers who set up ground source heat pump schemes at the beginning of the EEC now find that they are in competition with the Clear Skies programme, which offers grants to households. The schemes have the potential to integrate, as long as there is clear additionality. Again, the suppliers are unable to claim all of the energy savings achieved from the measures, as they will have been part funded under a Government programme. Another barrier to the schemes linking in is that the application for Clear Skies funding must come directly from the householder and therefore the supplier is unable to act as a facilitator. There has been some limited interest from suppliers in tying in with Clear Skies, although no schemes have been approved.

7. Emerging issues

- 7.1. Suppliers have made good progress towards their EEC targets during the first year of the programme. Although their performance is slightly below the average installation rate needed to meet the target, this is to be expected given the increase in activity that was required over the former EESoP 3 programme. In the third and fourth quarters of the first year suppliers have shown that they are able to reach the indicative average rate of installation. There was some concern about whether suppliers would be able to maintain this level of activity during the summer months. The provisional data from the first quarter (April – June) of the second year suggests that they can. Given the anticipated carry over from the former EESoP 3 programme of about 3% of the EEC target the overall target should be met if suppliers maintain this delivery rate. Although suppliers have indicated to Ofgem that they are having to work hard to meet their targets none have suggested that they consider the targets impossible to meet.
- 7.2. The different strategies employed by suppliers have led to performances that vary considerably. Those who are more heavily dependent on working with social housing providers have tended to be among the slowest to start. These schemes take time to negotiate, but in the longer term are expected to deliver large energy savings.
- 7.3. This low level of activity by some suppliers has been buoyed by the performance of some of the other suppliers. Those that so far have performed higher than average have tended to have partnered with a national retailer or have linked in with the Warm Front programme.
- 7.4. Warm Front integration schemes provide suppliers with a large source of energy efficiency activity which needs no marketing and little, if any, administration cost. These schemes clearly distort a supplier's performance, as it is a one-off attainment of a large amount of energy savings. There are benefits to be had from suppliers providing funding over and above the level of the Warm Front grant, as it can be a cost effective way to treat the whole house in terms of energy efficiency to those most in need.
- 7.5. The suppliers' delivery of energy efficiency measures has been dominated by their activity with social housing providers. This work, along with the free

delivery of certain measures, especially lamps, dominates the energy saving activity that the suppliers will target at the Priority Group. However, there has been some interest in delivery routes outside of the social housing providers for targeting the Priority Group. These schemes tend to tackle the energy efficiency of homes on a house-by-house basis. It will be important to assess how successful these schemes have been during the design of the second EEC.

- 7.6. In addition it will also be important to reflect on the measures that the suppliers will look to deliver to their consumers. Inevitably where the market is constrained suppliers will look to expand into new lines that will deliver their energy efficiency targets. Some are already being considered by the suppliers. While these measures improve efficiency they can be directed at the maintenance of a product and consequently could be considered to be a business as usual activity. Monitoring this sort of activity for which there is little, if any, historical data would be very difficult.
- 7.7. However, it is important to note that the flexibility of the EEC has led the suppliers to innovate and develop new energy efficiency measures. While this activity has been on a low level, the work that is being undertaken will provide indicators as to whether there is a solution to some difficult energy efficiency issues like how to improve the efficiency of homes that are off the gas grid.
- 7.8. Detailed consideration will have to be given to the types of measures that the suppliers can employ. In its illustrative model Defra anticipated that the suppliers would promote a range of lamps, but in reality the suppliers are primarily looking to promote 100 watt-equivalent lamps. Most of these lamps are being distributed for free, but where the suppliers are looking to sell the lamps to consumers Ofgem has required the suppliers to offer a range of wattage of lamps. However, the way suppliers are marketing lamps is primarily encouraging the take up in the 100 watt-equivalents.
- 7.9. It is difficult to say whether this is a genuine issue. If all the lamps are replacing 100-watt GLS lamps then the real energy savings that suppliers are being accredited with are being realised. If not, however, then part of these savings could be compromised. Careful consideration needs to be given to the appropriateness of allowing suppliers mainly to promote one type of light and how this sort of activity might need to be constrained in future.

7.10. Only supplier energy efficiency activity is reported on in this document. There is only a limited amount of data available on the lamps purchased outside the EEC. These data suggest that where a supplier is working with a retailer the numbers of lamps being purchased outside the scheme has actually increased, suggesting that the supplier activity is leading to the general promotion of CFLs.

7.11. During the course of the first year of the EEC, as noted in Chapter 3, there has been a considerable amount of merger and acquisition activity. In addition there was one new entrant to the programme in 2003, Atlantic Electric and Gas. The table below outlines the organisations that were set targets in the first year and the changes that occurred at the beginning of the second year. Suppliers that sold their customers, but not their licence, during 2002 continue to be obliged to meet an energy efficiency target.

Suppliers set a target in 2002	Suppliers set a target in 2003
Amerada	Atlantic Electric and Gas
British Gas	British Gas
Cambridge Gas	Cambridge Gas
Dee Valley Group	Dee Valley Group
LE Group	LE Group (inc. Seeboard) (now EDF Energy)
npower	npower
Powergen	Powergen (inc. Amerada)
Scottish and Southern Energy	Scottish and Southern Energy
ScottishPower	ScottishPower
Seeboard	TXU
TXU	

- 7.12. To recognise the changes made by Government to the benefits system, the Order was amended in April 2003 to change the definition of the Priority Group. Working Tax Credit and Child Tax Credit are qualifying benefits where the household's relevant income is less than £14,200. Suppliers are required to monitor recipients of schemes to determine the proportion within the Priority Group. Ofgem has advised suppliers on how this can be monitored. However, the strict requirements regarding Working Tax Credit and Child Tax Credit may pose problems for suppliers. Suppliers are aware of the sensitivities surrounding asking a customer to detail their income and may be reluctant to ask whether the householder's relevant income is less than £14,200. Suppliers may therefore choose not to target this group. Ofgem does not require suppliers to detail which benefit a household is receiving and therefore is unable to monitor whether in fact this customer group will miss out.
- 7.13. Ofgem will continue to work closely with the suppliers in assessing their schemes and overseeing their progress. We will use the information collected through our role as administrator to help inform future energy efficiency policy. Ofgem is keen to work closely with Defra and to contribute to the development of the EEC post 2005 through its High Level Advisory Committee.

Appendix 1 Glossary of terms

- 1.1 Additionality – Defra’s target setting model included measures which are considered business as usual. To ensure that a supplier’s scheme leads to an improvement in energy efficiency suppliers must demonstrate that each scheme includes measures which would not have been installed anyway. This is termed additionality.
- 1.2 CFLs - Compact fluorescent lamps (energy efficient light bulbs).
- 1.3 EEC Order – the legislation for the EEC is set out in the Electricity and Gas (Energy Efficiency Obligations) Order 2001. This was amended by the Electricity and Gas (Energy Efficiency Obligations) (Amendment) Order 2003.
- 1.4 Fuel-standardised energy savings – energy savings that have been adjusted according to the carbon concentration of each fuel. These coefficients are set out in the EEC Order and are as follows: coal 0.56, electricity 0.80, gas 0.35, LPG 0.43 and oil 0.46.
- 1.5 Priority Group - defined in the EEC Order as those household receiving one of the follow benefits: council tax benefit, housing benefit; income support; an income-based jobseeker's allowance, an attendance allowance, a disability living allowance, a war disablement pension together with a mobility supplement or a payment under constant attendance allowance; industrial injuries disablement benefit where it includes constant attendance allowance and state pension credit. Child tax credit and working tax credit are included where the household’s relevant income is less than £14,200.
- 1.6 Supplier activity - energy efficiency work undertaken by suppliers to meet their energy efficiency targets.