

## **Ofgem: CERT+ consultation response**

1. Ofgem welcomes the opportunity to comment on the consultation document "Amendments to the Carbon Emissions Reduction Target" (February 2009). Saving energy is vital to the delivery of climate change and fuel poverty objectives and we acknowledge the important role that the Carbon Emissions Reduction Target (CERT) plays in this. CERT and its predecessors (The Energy Efficiency Commitments - EEC1 and EEC2) have been key in delivering energy savings to domestic premises within Great Britain and Ofgem supports Government in exploring how best to deliver substantially increased savings.
2. Energy efficiency within the home is a very cost effective way of delivering carbon savings, with additional benefits for security of supply and the potential to be delivered and funded in ways which mitigate the cost impacts on vulnerable customers. Programmes such as CERT have proved successful in delivering energy saving measures and can provide important insights and learning for future scheme designs. We recognise the importance of test initiatives, within these programmes, and the role that they can play in developing measures and approaches for future deployment, to deliver the best value for money for future customers.
3. The proposals in the consultation have significant implications for the design and scale of the CERT programme. As the energy regulator with the principal objective of protecting the interests of existing and future consumers, we consider it imperative that the CERT, given its scale and importance, is designed to deliver the Government's objectives as efficiently and effectively as possible. This involves taking account of both the short-term impacts of measures undertaken now on current bills and also the potential for innovation to reduce the costs to future consumers, bearing in mind the scale of energy saving needed to meet the low carbon challenges will be much greater than the current schemes.
4. Ofgem supports the increase in the overall target and believes, given current activity, that the suppliers will be able to meet the revised target. The proposals in the consultation do however raise a number of issues. Our main concern is that the proposed uplifts are likely to reduce the effectiveness of the scheme, reducing the amount of carbon saving delivered for a given nominal target and increasing the costs to consumers per unit of actual carbon saved, without offsetting benefits.
5. Ofgem is committed to continuing to work with DECC on the successful delivery of the CERT programme and on the design of future programmes. We believe that energy saving within the home has a huge role to play going forwards and look forward to working with Government to ensure efficient delivery.

### **Increasing the overall CERT target by 20%**

6. CERT and its predecessors (EEC1 and EEC2) have been successful in delivering energy efficiency and carbon reduction measures to domestic premises in Great Britain. ~~Government is now proposing to increase the CERT target by 20%, part-~~ way through the scheme. The proposed increase is clearly a sign of the success of

the programme and Government's ambition. However, when considering how such an increase will be implemented it will be important for the Government to consider which groups of consumers are likely to benefit and who will pay. Any reduction in fuel bills, or increased comfort, will only apply to consumers that receive measures under the programme. For those that do not receive measures, the costs associated with the 20% increase will simply increase fuel bills. The way in which the scheme is structured as obligations per customer is particularly regressive – we would encourage further consideration of this issue given particularly the likely increases in the scale and cost of future energy saving obligations. Those who do not receive any measures and who are at the margins of fuel poverty risk being pushed into fuel poverty.

7. Ofgem's principal objective is to protect the interest of consumers, present and future. We consider, therefore, that it is important that the costs paid by consumers, arising out of this scheme, are efficiently incurred. Ofgem understands that Government wants to encourage suppliers to explore new delivery routes and that uplifts can incentivise this. Government should be mindful however, when devising these incentives, that providing uplifts for certain measures will lead to fewer measures being deployed than would otherwise be the case. In addition, if suppliers choose to increase the subsidies to these measures, and there are indications from the market that they have as they compete to win these higher weighted measures, then the cost per tonne of CO<sub>2</sub> reduction will increase. In addition the real carbon savings realised under the CERT programme will not meet the overall target set.
8. In considering how the various uplifts proposed might affect the increased target we have looked at the effect of insulating 6 million homes with loft top up insulation (to tie in with the Prime Minister's aspiration). We have estimated that around 17.5 million tonnes CO<sub>2</sub> would be accredited as a result of the incentive on top of what would be accredited as a result of the measures themselves. If, in addition, suppliers were to make full use of the proposed 10% innovation cap around 86% of the 31 million lifetime tonnes, which makes up the 20% increase, would not be realised. As a result the overall effect would be to add significantly to the costs of delivering CERT but with only an increase in actual carbon savings realised of around 3% - a long way short of the 20% that was announced.
9. Ofgem recognises that the costs associated with the programme, put forward by DECC in its Impact Assessment, have been estimated. Nonetheless, given that the scale of the programme is now roughly similar in size to the transmission component of consumers' bills, we consider that a thorough analysis should be carried out by Government on the exact nature of the costs associated with the programme. In particular, given the accelerating scale of the programme we consider this analysis should explore whether consumers are getting value for money and whether the suppliers are delivering the measures promoted in the most cost effective way as possible. Minor inefficiencies in the delivery of measures in a programme of the scale of the CERT could easily lead to many millions of pounds being wasted. Such analysis may provide valuable lessons for the design of future schemes.

10. On the Priority Group percentage Ofgem recognises the importance of careful targeting in programmes such as the CERT in order to ensure that those in the most need are not disadvantaged. In defining the Priority Group there is a balance to be struck between those that receive benefit under the scheme and those that do not. This will again be of particular importance in the design of future schemes. Data received by Ofgem indicates that, at present, the suppliers are not experiencing difficulty in meeting their current Priority Group targets. This is largely due to the inclusion of the over 70s in the Priority group definition.

### **Loft insulation**

11. Ofgem does not consider the proposed new incentives to encourage professional top-up loft insulation and DIY loft insulation appropriate. In particular we are extremely concerned with the proposed new incentive for DIY loft insulation and the effect that it is already having on the market.
12. Increasing the carbon value ascribed to professional loft top-ups using uplifts (50% for non-Priority group and 100% for the Priority Group) will further reduce the actual carbon saved from the programme (below the overall target set). The incentive may also encourage suppliers to promote these measures instead of measures such as cavity wall insulation, where each consumer receiving the measure sees a lot more benefit. The benefit to consumers from loft top-up is limited. There is a diminishing return from increasing levels of loft insulation within the home, with around 75% of the potential savings coming from the first 50mm. The uplifts will encourage suppliers to increase the level of subsidy provided for these measures, the costs of which will be passed on to all consumers. This brings additional inefficiencies into the CERT programme by increasing the price paid per tonne of actual CO<sub>2</sub> by consumers, while reducing the total carbon savings achieved in real terms.
13. The proposed uplift for DIY loft insulation is of particular concern. DIY loft insulation, without any uplift, is a cost effective measure under the CERT programme. The proposed new uplift for DIY loft insulation is already having a serious impact on the market. Since the Prime Minister's announcement on 11 September 2008 Ofgem has seen an increase in the levels of subsidy provided to DIY loft insulation, as suppliers begin activity early. Ofgem understands that some DIY loft insulation products are now not only markedly cheaper than the same product bought by the trade, but also cheaper than it costs to manufacture.
14. Ofgem is extremely concerned that this increased price differential between trade and retail DIY loft insulation will provide sufficient incentive for professional installers to purchase loft insulation meant for the DIY market and that double-counting may occur. In addition, DIY product could also be receiving CERT credit for installation in new build properties, even though there are minimum insulation standards for new build under the Building Regulations. To mitigate these risks Ofgem has been working with the suppliers, the insulation industry, DIY retailers, and DECC to develop 'Best Practice Guidelines' which introduce a range of additional checks for DIY/professional loft insulation installations. However, we remain extremely concerned about the proposed uplift as this measure is cost effective and therefore does not need any additional support. The extra support

proposed is distorting the market and increasing the potential for double-counting. Ofgem therefore urges the Government in particular to reconsider its proposed uplift for DIY loft insulation.

15. In addition, under the current CERT, certain assumptions have been made about the accreditation of DIY loft insulation. A significant increase in the number of DIY loft insulation measures above what is in the illustrative mix, would bring into question these assumptions, and potentially affect the delivery of actual CO<sub>2</sub> savings.
16. Ofgem understands that Government wishes to encourage and facilitate the deployment of certain new and innovative measures. However, the provision of uplifts to measures where there is a mature market for the product clearly distorts this market and lessens the effectiveness of the CERT (in terms of real carbon savings achieved). Should Government decide to go ahead with the proposed uplifts for loft insulation, Ofgem would strongly support the introduction of a cap and given the arguments presented above, we consider that the level of the cap should be at a level considerably less than that for innovative action.
17. In his speech on 11 September the Prime Minister announced the intention to insulate 6 million homes. If Government is concerned to ensure a strong focus on insulation measures being delivered through CERT then this is a further reason to consider carefully the inclusion of other measures such as RTDs which will be easy for suppliers to deliver and risk undermining Government's aspiration.
18. Loft insulation is already cost effective and therefore, even without the additional incentives, it is likely that suppliers would increase activity in this area in order to meet the increased target. With the additional incentives, instead of 3 homes being insulated, only 2 would need to be insulated to achieve the same carbon score. Scaling this up this would mean that insulating 4 million lofts would achieve the same amount of carbon as insulating 6 million, without the incentive. The inclusion of these incentives will in effect undermine the contribution of the CERT to the 6 million homes insulated target rather than enhance it as the Government expects.

### **Real Time Displays (RTDs)**

19. Ofgem supports the introduction of behavioural measures into energy saving programmes and understands the important role that these measures are likely to play going forwards. Under the current CERT, measures such as RTDs can become accredited measures if a robust up-front score can be determined. Suppliers can do this via independent trial or via a demonstration action. The inclusion of RTDs within the CERT, as proposed, does however raise a number of concerns. In particular we are concerned over the predetermined score, how it has been established, and the effect that it could have on the CERT programme.
20. The whole CERT programme is designed around the principle of robust quantifiable scores being ascribed to measures up-front. Awarding a score to encourage the take-up of a measure when the score itself is not based on firm quantifiable evidence is a break from that methodology. Ofgem is therefore

concerned about the inclusion of RTDs in the CERT programme without such quantifiable evidence.

21. Further information will become available from the DECC sponsored Energy Demand Reduction Project (EDRP) trials, which are currently being carried out on RTDs and smart meters. These trials are currently ongoing and are not due to complete until 2010. Interim results<sup>1</sup> from the EDRP, at this stage, do not provide enough evidence to indicate whether RTDs do or do not show savings. We would therefore question the basis on which the score was determined for the accreditation of this measure under CERT and suggest that the inclusion of RTDs be postponed until the EDRP is complete. The EDRP is a comprehensive trial that should produce robust data and results. This should also assist Government in considering RTDs when designing the successor programme to CERT.
22. We understand from the consultation that the rationale for this change in approach is to expedite the introduction of RTDs into the programme and to stimulate the market for their take up. Should, despite our concerns, the decision be taken to go ahead with this proposal, then Ofgem considers it vitally important that Government monitor (or require the suppliers to monitor) these devices so that more accurate and robust scores can be ascribed in the future. It will also be important to identify whether any lessons can be learned, particularly around delivery routes, from this early deployment.
23. There is also the issue of the interaction of RTDs, promoted under the CERT, and the mandatory smart meter roll out. Under CERT suppliers are only accredited for measures that are additional, those that wouldn't have occurred under 'business as usual'. If RTDs are provided as part of the smart meter roll out<sup>2</sup> then those devices potentially could not be considered 'additional' and as such we would have to look at whether CERT credit should be given. There is also a question as to whether customers will be asked to pay twice for such measures – once now through the CERT and then again as part of the smart meter roll-out.
24. The proposed increase in the level of the innovation ring-fence (see later comments) means that potentially up to 25 million lifetime tonnes CO<sub>2</sub>, or over 13% of the revised target could be delivered via RTDs. Ofgem is concerned that RTD activity could displace other established measures which have been proven to lead to significant benefits or bill savings for consumers, such as insulation. We have estimated that the promotion of 2million RTDs would displace around 100,000 loft insulation installations. This appears contrary to Government's commitment to insulate every home.
25. Under the current CERT programme, the route to market for RTDs would be via 'demonstration action' or independent trials. Ofgem has received a number of requests from RTD manufacturers/energy suppliers who wish to conduct trials in

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<sup>1</sup> Ref: 29/09 'Energy Demand Research Project: Review of progress for period April 2008 – August 2008' March 2009  
([http://www.ofgem.gov.uk/MARKETS/RETMKTS/METRNG/SMART/Documents1/EDRP\\_Progress\\_Report\\_2.pdf](http://www.ofgem.gov.uk/MARKETS/RETMKTS/METRNG/SMART/Documents1/EDRP_Progress_Report_2.pdf))

<sup>2</sup> Full details of exactly what will be required under a smart meter roll-out are still unclear. It is however expected that some form of direct feedback to consumers will be included and this may take the form of RTDs.

order to obtain a higher CERT score for RTDs with increased functionality. These, however, are unlikely to proceed now because the score for the basic version is unlikely to be beaten because it is based on a 15 year lifetime. Any developer of a new or enhanced product will need to prove the lifetime for its model, which in the short timeframe of a trial could never be 15 years. The effect of providing such a high level of carbon accreditation for basic RTDs is that it could stifle innovation in this area and undermine what some suppliers might have done under 'demonstration'.

26. DECC have invited comments on whether RTDs with increased functionality should be awarded a higher score. Ofgem considers that RTDs with an increased functionality are unlikely to be delivered via CERT unless a higher score is awarded or unless a lifetime, equal to that for the basic models, can be awarded for increased functionality RTDs undergoing trials. This would need to be done via the legislation.

### **Advice / audits**

27. We support the Government's approach to explore new ways to deliver energy efficiency through face to face energy advice, which has the potential to be very useful. We support the desire to influence and change people's behaviour around energy use within the home and believe that the provision of Home Energy Advice, via the CERT, is a good idea in principle. Suppliers already have direct relationships with consumers and as such are in a position to provide advice and to develop these relationships further, which we would support. Ofgem also recognises that energy efficiency advice is likely to play an important part in delivering carbon savings in the future.
28. As with RTDs Ofgem has some concerns around the inclusion of energy efficiency advice within the CERT without a proven score and would again urge Government to monitor the effect of the advice provided through the CERT programme in order that lessons can be learned going forwards. An alternative route for the provision of additional energy efficiency advice now would be through additional support to the Energy Saving Trust (EST) who already provide independent energy advice.
29. It is worth noting that suppliers have an implicit incentive to provide energy efficiency advice to encourage householders to take up energy efficient measures from their CERT schemes. The proposals would therefore appear to be a formal extension of that incentive. They also have a requirement to provide energy efficiency advice under their licence conditions, in certain circumstances.
30. If the Government decides to go ahead with the inclusion of energy advice within the CERT then Ofgem supports the proposal for the requirement of specific minimum qualifications. All those providing energy advice assessments under CERT should be suitably qualified.
31. The setting out of minimum requirements for energy audits and advice in the Order provides clarity. This should ensure that all advice credited will meet a minimum standard and be more likely to result in a reduction in carbon

emissions. We have the following additional comments on the proposed list of requirements:

- It would be useful to mandate that boiler advice should take account of Ofgem's procedures for early replacement of G-rated boilers.
- We strongly suggest that insulation advice is included as a mandatory aspect of the energy audit, as this is where householders can make the most significant savings.
- It would be useful to understand more about the checklist referred to. Who will determine the areas covered in the check list and what exactly is its purpose intended to be? Ofgem considers that for consistency all the auditors/advisers should use the same checklist questions.

32. Ofgem questions the rationale behind the proposal to award a higher score for providing both RTDs and advice together to the same consumer. This could double count savings from the same behavioural changes e.g. switching off lights and appliances when not in use. Combining these two measures was discussed at the recent DECC workshop on advice. Many considered that RTDs would be unlikely to achieve a saving without advice and that an RTD would back up any advice provided; it would act as a constant reminder to the householder. Ofgem supports the view that the measures should be combined. Should Government decide to require these measures to be delivered together, then Ofgem considers that the score awarded should be no more than the two current proposed scores added together. Ofgem also considers, for the reasons provided above, that a reduced combined score would actually be more appropriate.

33. Finally, and in addition, we would strongly suggest that any score for advice should only be given when the advice is provided in conjunction with some kind of follow up, to prompt householders to remember, and crucially to act on, the original advice. Realistically a follow up home visit is unlikely to be cost effective for suppliers and if this is mandated it is unlikely that any advice will be delivered via CERT. A follow up telephone call would therefore seem a pragmatic way forward.

### **Reporting**

34. Ofgem understands the concerns about transparency and the need for area specific information. This information will facilitate more informed planning when Government is designing future energy efficiency schemes.

35. It is for Government to decide suitable monitoring approaches. These decisions will however impact on the scope and scale of Ofgem's administrative role. Government may wish to consider using existing systems for monitoring – for example, we note that the EST has already developed a database of the UK housing stock which, if kept up to date and shown to be appropriate, could potentially be used for monitoring the penetration of certain energy efficiency measures.

36. In addition, the Government is consulting on the Community Energy Saving Programme and in the longer term has taken powers to introduce the Renewable Heat Incentive. It would also seem appropriate to consider the reporting requirements for all of these schemes alongside each other – for example, it may perhaps be better to construct a single database to monitor each of these schemes, particularly given that similar measures can be promoted under each of them. These decisions may therefore have a significant impact on the scope of Ofgem’s administration work and funding requirements.

### **Energy Efficient Lamps**

37. During the first 9 months of the CERT programme around 120 million Compact Fluorescent Lamps (CFLs) were delivered by suppliers – with the majority of these being delivered by direct mail-out schemes. Ofgem is aware of the concerns regarding the numbers of this particular measure being delivered and concerns as to whether they are actually being used, and hence the carbon savings realised.

38. At the start of the CERT programme Government took the decision to allow the promotion of CFLs as it was thought that this would help with the phase-out of incandescent bulbs. As CFLs are a cost effective measure, suppliers have promoted these measures in large numbers. However, the numbers now in circulation, delivered during CERT and during the predecessor programmes, could indicate that a saturation point has now been reached. Given the scale of the suppliers’ activity it is becoming uncertain as to how many of these measures have actually been fitted in consumers’ homes. Therefore, in view of the importance of actually realising carbon savings in the programme we welcome Government’s consideration of this issue – particularly as CFLs displace measures such as insulation, which Government is keen to promote.

39. As the administrator of the CERT programme Ofgem issued Supplier Guidance which contained information on how CFL delivery would be administered and suppliers have abided by that Guidance. Ofgem has conducted a review of its guidelines in this area – and we will consult on these proposals as part of our consultation on the revised supplier guidance for the revised CERT. Our proposals intend to reinforce the current guidance for suppliers.

40. We do however understand the concerns that have been raised over the volume of CFLs being delivered, and their impact on the CERT. We will therefore work closely with Government on this issue. If Government decides that CFLs should be ineligible under the CERT, they would need to be prohibited through the legislation (as they are currently an eligible measure). Another option open to Government would be to cap the numbers of CFLs that suppliers can deliver – again this would need to be done via a legislative change.

### **Increasing the innovation cap from 6% to 10%**

41. Ofgem recognises that innovation activity can help develop new markets for the delivery of energy efficiency measures. For instance, the iDTV promotions during EEC2 transformed the market and led to significant long-term energy savings. ~~Innovation in the CERT programme will also provide early learning for future schemes.~~



42. Raising the innovation cap from 6% to 10% will increase the level of innovation/research and development (R&D) activity that the suppliers can engage in. It may also increase the amount of carbon accredited to the suppliers via uplifts which will detract from actual carbon savings achieved under the programme and increase the costs paid by consumers per tonne of actual CO<sub>2</sub> saved.
43. So there are both costs and benefits associated with increasing the innovation cap – in the interests of good policy-making and retaining confidence in the scheme overall, we would advocate greater transparency in how the Government have weighed these considerations and, in particular, we would welcome publication of the evidence on which the increase was based. At this early stage in the current programme, Ofgem does not yet have the data that would indicate whether suppliers are close to their current innovation cap or not. We support innovation and would like to see the cap set at a level that encourages suppliers to innovate but that does not detract too much from the actual carbon savings achieved under the programme.

#### **Extending the CERT to 2012**

44. Extending the end date of the CERT to 2012 will align the programme with the end date of the CESP programme. Ofgem supports carry-over provisions from one scheme to the next as this allows a smooth transition between the programmes – both for the industry and for consumers.
45. Ofgem would be happy to administer such an extension, subject to agreeing appropriate resourcing with Government. We would like early clarification on how the proposed extension will work and whether the extension to 2012 would be through an amendment to the Order or through a new Order. Ofgem would prefer the former as a new Order would require both the suppliers and Ofgem to carry-out two resource intensive completion processes within the space of two years which would be administratively very burdensome.