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*Promoting choice and
value for all customers*

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Date: 14 April 2009

Dear Mr Egerton

Amendments to the Carbon Emissions Reduction Target – Ofgem response

Ofgem welcomes the opportunity to comment on DECC's consultation document 'Amendments to the Carbon Emissions Reduction Target' (February 2009). Energy efficiency within the home is a very cost effective way of delivering carbon savings and, as administrator of the CERT programme, we are committed to continuing to work with DECC on its successful delivery. Administering the CERT remains an important regulatory task for Ofgem and the proposals in the consultation have significant implications for the design and the scale of the CERT.

In commenting on the proposals for CERT, we recognise that they must be seen in the context of the proposed CESP mechanism and the longer term developments foreseen in the Heat and Energy Saving strategy consultation. We recognise the challenges that the energy sector faces in moving to a low carbon model, while still delivering security of supply and affordable energy. Substantial improvements in energy efficiency are clearly an essential part of meeting this challenge, both now and increasingly into the future. Recognising the costs of these measures, further consideration will be needed as to how they are funded – distribution issues depend on who pays as well as who benefits.

In this context, we see the role of CERT as delivering increasing volumes of the most cost-effective measures for customers in the short term, but also as contributing, alongside CESP and longer-term policies, to finding more innovative solutions which will be needed to deliver best value for future customers. In this letter we would like to highlight a number of areas where the detail of your proposals risks failing to achieve these objectives, particularly in terms of perverse incentives and ensuring lessons are captured. Our full response provides constructive suggestions to mitigate these risks.

The uplifts proposed need amendment to avoid perverse incentives: we recognise and support the need to investigate different delivery mechanisms. We see value in encouraging more of a "whole house" or integrated approach. However, the mechanics of the uplift proposals send perverse incentives to fit measures that may be inappropriate and could result in the level of carbon savings being achieved falling well short of the headline 20% figure. In our view, greater carbon savings are achievable while still supporting an

integrated approach. We have particular concerns about the uplifts for loft insulation, which we consider will distort the market and simply reduce the carbon savings arising from CERT by reducing the number of measures undertaken for a given target level.

Innovation must support learning: as noted above, we support the desire for more innovative approaches because this will allow learning-by-doing and help reveal the potential of new approaches. However, in order to achieve this it is essential that results are monitored and that the implications of trial results are given proper consideration. So we support inclusion of behavioural measures and advice, but are concerned that the value of this will be lost without proper monitoring. We also consider that the consultation ignores the relevance of the Energy Demand Reduction Project (EDRP) – for example, it would be better to use results from that project, when available, to decide the case for inclusion of real-time displays in CERT. Similarly, we are not aware of the evidence for changing the cap on innovation measures – this is an area in which Government could lead by example by demonstrating the evidence base for the proposed change.

Alongside these two issues, we also have practical suggestions for how some of the proposals are implemented, based on our experience of administering the programme. For example, there may be practical benefits in using the Energy Saving Trust's database for regional reporting and in making the extension to CERT through amendment of the existing Order rather than a new Order. We trust that you will be able to reflect these practical suggestions in taking these areas forward.

More details on each of these issues are set out in our full response.

Steve McBurney would be happy to discuss any aspect of this response with you. He can be contacted using the details at the top of the page.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Hull', with a horizontal line underneath the name.

Robert Hull
Director, Regulatory Services