

## A review of the first year of the Carbon Emissions Reduction Target

**Document Type:** Annual report to Secretary of State for Energy and Climate Change

**Ref:** 88/09

**Date of Publication:** 1 August 2009

**Target Audience:** DECC, energy suppliers, the energy efficiency industry and any other interested parties

### Overview:

The Carbon Emissions Reduction Target 2008-2011 (CERT) requires certain gas and electricity suppliers to meet a carbon emissions reduction target in domestic properties. By the end of the first year of CERT suppliers had delivered sufficient energy saving measures to meet around 50% of the revised overall target of 185 million lifetime tonnes of carbon dioxide.

Suppliers are required to meet at least 40% of their obligation in the Priority Group (those on certain benefits or over 70 years of age). During the first year of the programme suppliers have focused around half of their activity at this group and are therefore on target for meeting this requirement.

Both demonstration actions and the Priority Group flexibility mechanism were new to CERT. Suppliers submitted a number of demonstration action proposals during the first year, with two Priority Group flexibility mechanism schemes also being approved.

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## Context

The Carbon Emissions Reduction Target 2008-2011 (CERT) is the government's main policy instrument for improving the energy efficiency of existing households. It requires certain gas and electricity suppliers to meet a carbon emissions reduction target between 1 April 2008 and 31 March 2011.

The CERT is primarily a carbon reduction target which contributes to the government's Climate Change Programme by reducing domestic carbon emissions. At least 40 per cent of the target has to be met in relation to certain low income consumers (who are on certain benefits) or those over 70 years old. The CERT therefore also contributes to the government's Fuel Poverty Strategy.

The Department of Energy and Climate Change (DECC) set the overall target for CERT. Ofgem administers the programme. We determine the carbon emissions reduction obligation for each supplier and monitor compliance.

This document sets out the suppliers' performance during the first year of CERT. It fulfils Ofgem's reporting duties to the Secretary of State under The Electricity and Gas (Carbon Emissions Reduction) Order 2008.

## Associated Documents

- The Electricity and Gas (Carbon Emissions Reduction) Order 2008, Statutory Instrument 2008 No. 188.
- Explanatory Memorandum to the Electricity and Gas (Carbon Emissions Reduction) Order 2008, 2008 No.188.
- Carbon Emissions Reduction Target (CERT) 2008-2011 Supplier Guidance, 31 January 2008 ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).

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## Summary

This report fulfils Ofgem's reporting duties to the Secretary of State for Energy and Climate Change under The Electricity and Gas (Carbon Emissions Reduction) Order 2008. In addition to reporting on the overall performance and each supplier's performance, as required, we have provided extra analysis that DECC might find helpful when considering policy for the possible CERT extension, and the Supplier Obligation (post-CERT).

Six suppliers were set an obligation under the CERT: British Gas, EDF Energy, E.on, npower, Scottish Power and Scottish and Southern Energy. Suppliers carried forward additional savings accrued under the Energy Efficiency Commitment 2005-2008 (EEC2, the predecessor programme to CERT). Suppliers meet their obligations by setting up schemes to promote and deliver energy efficiency measures to domestic consumers. Outlined below are the key findings of the report.

### Overall progress 2008-2009

- At the end of the first year of CERT the suppliers combined had achieved 50% of the overall (revised) target.
- Of the activity to date 53 per cent has been in the Priority Group (this figure excludes Priority Group activity carried over from EEC2). Including carryover, approximately 45 per cent of savings have been achieved in the Priority Group.
- Supplier activity in the Priority Group has been highest for insulation measures, with lighting also featuring strongly. In the non-Priority Group again insulation accounts for the higher share of savings achieved although in this group it is more closely followed by lighting.
- Insulation measures accounted for 56 per cent of the savings achieved in the first year (excluding carryover).
- Lighting, in particular compact fluorescent lamps (CFLs), makes up a significant proportion of the savings achieved to date at around 38 per cent (excluding carryover).

### Issues for consideration

- Excluding savings achieved through direct lighting schemes suppliers have only achieved 22% of the overall target (excluding carryover)
- Lighting activity in the first year of CERT represented just under 23% of the savings achieved and cost an estimated £350 million or £14 per household
- Priority Group activity has been focussed on the over 70s, and not necessarily those on low incomes

## Each supplier's progress towards its obligation

- The table below shows each supplier group's achieved savings as a percentage of their individual obligations. It also shows the share of carbon emissions savings carried over from EEC2, as a percentage of each supplier group's CERT obligation.

Supplier	Proportion of each supplier's CERT obligation				
	Priority Group	non-Priority Group	EEC2 carryover - Priority Group	EEC2 carryover - non-Priority Group	Total
British Gas	13 per cent	17 per cent	7 per cent	17 per cent	54 per cent
EDF Energy	20 per cent	17 per cent	6 per cent	14 per cent	56 per cent
npower	16 per cent	6 per cent	3 per cent	6 per cent	30 per cent
E.ON	23 per cent	17 per cent	6 per cent	9 per cent	55 per cent
Scottish and Southern Energy	13 per cent	11 per cent	8 per cent	17 per cent	49 per cent
Scottish Power	17 per cent	14 per cent	11 per cent	14 per cent	56 per cent
Overall target	16 per cent	14 per cent	7 per cent	14 per cent	50 per cent

## Delivery of measures

As a programme CERT encourages the suppliers to meet their obligations in the most cost effective way possible. This means measures that deliver the most carbon at the least cost. DECC estimate that the target of 185 million lifetime tonnes carbon dioxide will cost the suppliers £3.2 billion to meet. This equates to a cost of around £17 per lifetime tonne of carbon dioxide.

Suppliers have used a wide range of delivery methods during the first year of CERT. Primarily this has involved dealing with consumers directly and offering them subsidised energy efficiency products such as insulation. Suppliers have also promoted measures using a variety of partners including Local Authorities, Social Housing Providers (SHPs), charities, retailers, manufacturers, newspapers and linking with other programmes such as the Warm Front Scheme. The vast majority of savings achieved in the first year were through insulation and lighting, although suppliers have continued to promote a range of other measures including heating and appliances.

Suppliers have also promoted innovative measures including consumer electronics and microgeneration products. They have also submitted proposals for demonstration actions under CERT which will trial a variety of new and existing technologies. This activity however only makes up a small share of the overall activity carried out by suppliers.

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## 1. Introduction

1.1. The Carbon Emissions Reduction Target 2008-2011 requires certain gas and electricity suppliers to achieve a carbon emissions reduction target. At the start of the programme this overall target was set at 154 million lifetime tonnes of carbon dioxide.

1.2. On 11 September 2008 the Prime Minister announced the Heat and Energy Saving Strategy. The announcement included proposing changes to the CERT programme and the introduction of the Community Energy Savings Programme (CESP). DECC consulted on amendments to the CERT Order in February of this year.

1.3. In June the government published its decisions in relation to CERT, with the draft CERT amendment Order being laid before Parliament on 2 July. The changes include:

- increasing the overall target by 20%
- specified scores for real time displays and home energy advice
- increasing the innovation ring fence to 10% (or 12% where at least 2% is met through microgeneration)
- an incentive for professionally installed loft top-up and DIY loft insulation - where the installation takes place in the period 11 September 2008 to 31 July 2009
- restrictions to the delivery of compact fluorescent lamp (CFL) schemes

1.4. The new CER target has been set at 185 million lifetime tonnes of carbon dioxide and this is the figure that we have used when producing the charts and tables in this report.

1.5. At least 40 per cent of the target has to be met in relation to Priority Group consumers, who are defined as those in receipt of certain income-related benefits and tax credits, and those aged over 70. The overall target is set by DECC. Ofgem is required to administer the programme.

1.6. For each year of the CERT programme Ofgem is required to provide a report to the Secretary of State. Chapters 2 and 3, which detail suppliers' overall progress towards the target and their individual progress towards their obligations, meet this requirement. Chapter 4 covers the measures delivered during the first year with Chapter 5 focussing on our analysis of the programme so far. The data published in this report is taken from suppliers' scheme proposals and quarterly report returns. Where numbers provided in the tables do not exactly match those cited in the text it will be due to rounding errors.

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## 2. Overall progress in the first year

### Chapter Summary

This chapter outlines the suppliers' combined progress against the overall (revised) target during the first year of CERT, focusing on the carbon emissions savings achieved. The chapter also discusses the progress suppliers have made towards achieving at least 40% of the overall target in the Priority Group.

The information presented in this chapter is based on suppliers' scheme proposals and quarterly report returns.

This chapter fulfils Ofgem's reporting duties to the Secretary of State on overall progress towards the carbon emissions reduction target.

### Measures carried forward from EEC2

2.1. Suppliers were allowed to carry forward any savings in excess of their EEC2 targets into CERT. They carried over 37.8 million lifetime tonnes carbon dioxide which accounted for just under 25 per cent of the original CER target of 154 million lifetime tonnes carbon dioxide. In relation to the new target of 185 million lifetime tonnes carbon dioxide, the savings carried-over account for around 20 per cent.

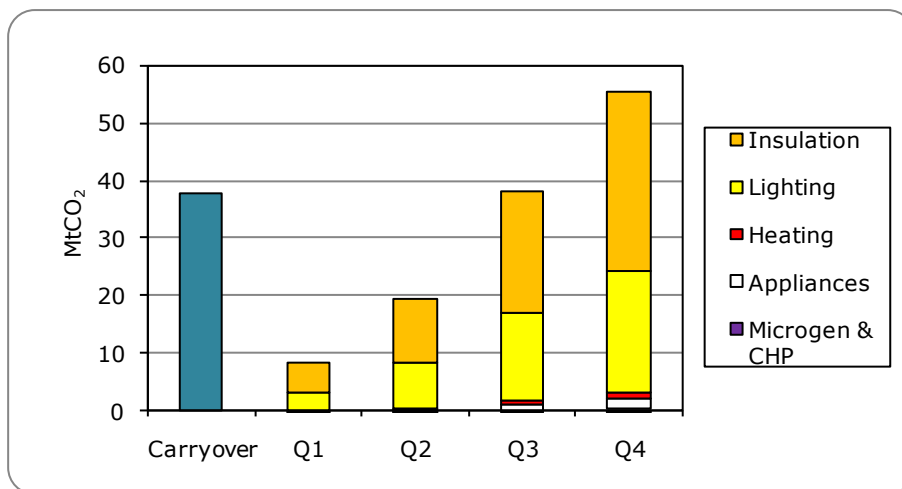
2.2. Between EEC2 and CERT a number of changes were made to the accreditation of measures. The measures the suppliers carried over were those where savings were increased under the CERT, relative to EEC2, through extended lifetimes, or better measure by measure savings e.g. increased savings for DIY loft resulted in 85% of EEC2 DIY loft activity being carried over. Those measures that received lower savings under CERT, such as cold and wet appliances, were used to meet the EEC2 target.

### Progress to the end of the first year

2.3. By the end of the first year, suppliers had delivered measures resulting in approximately 93 million lifetime tonnes carbon dioxide or 50 per cent of the overall target. Of this, 55 million lifetime tonnes carbon dioxide were achieved in the first year of the programme (i.e. excluding carryover).

2.4. To comply with the increased target, allowing for measures carried-over, the suppliers need, on average, to collectively achieve just under 50 million lifetime tonnes carbon dioxide per year, or approximately 12 million lifetime tonnes carbon dioxide per quarter. The suppliers' run rate in the first year was therefore just above the level required.

Figure 2.1. Carbon emission savings achieved to the end of the first year of CERT



2.5. Figure 2.1 shows the increase in savings achieved quarter on quarter in the first year, broken down by main measure type. It can be seen that after a slow start to the programme activity ramped up in the last two quarters, with suppliers achieving over the 50 million lifetime tonnes carbon dioxide reduction needed to be on target for meeting their obligations. Insulation and lighting have dominated as the main measures delivered.

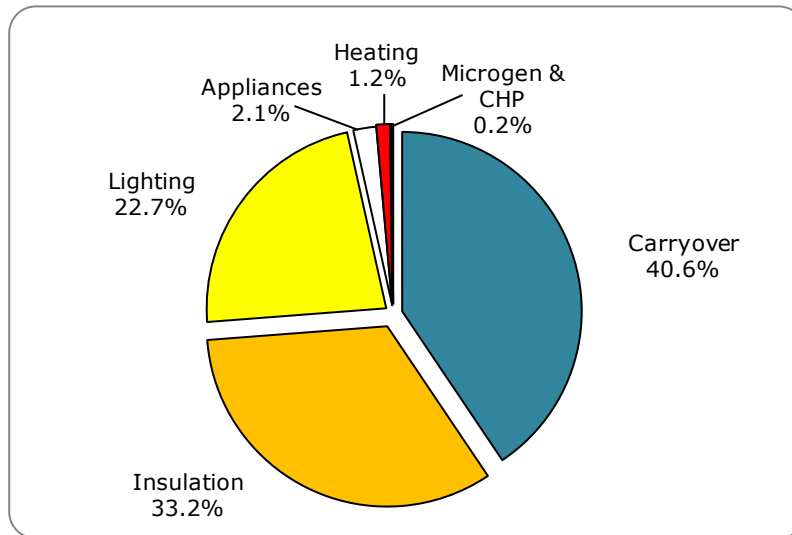
### Measures delivered

2.6. Supplier activity can be broken down into five main categories of measure: insulation, lighting, heating, microgeneration/Combined Heat and Power (CHP) and appliances. Figure 2.2 shows how the delivered carbon emissions reductions are attributed to these main types, with a separate segment for the savings carried over from EEC2.

2.7. Of CERT activity in the first year, insulation and lighting dominate, accounting for just under 94 per cent of the savings achieved. Insulation accounts for the largest share of savings however the first year of CERT has seen an increase in lighting activity (when compared with EEC2). Lighting was a very important measure for the suppliers in the first year of CERT. The delivery of CFLs under CERT was highly attractive to suppliers because they are relatively cheap, are easy to put into a package (for a promotion or mail-out) and deliver cost effective carbon savings. Many of the suppliers have delivered lighting schemes in the first year, including sending free CFLs to their customer bases (unsolicited by mail). These schemes and delivery routes account for the high proportion of savings that came from lighting in the first year.



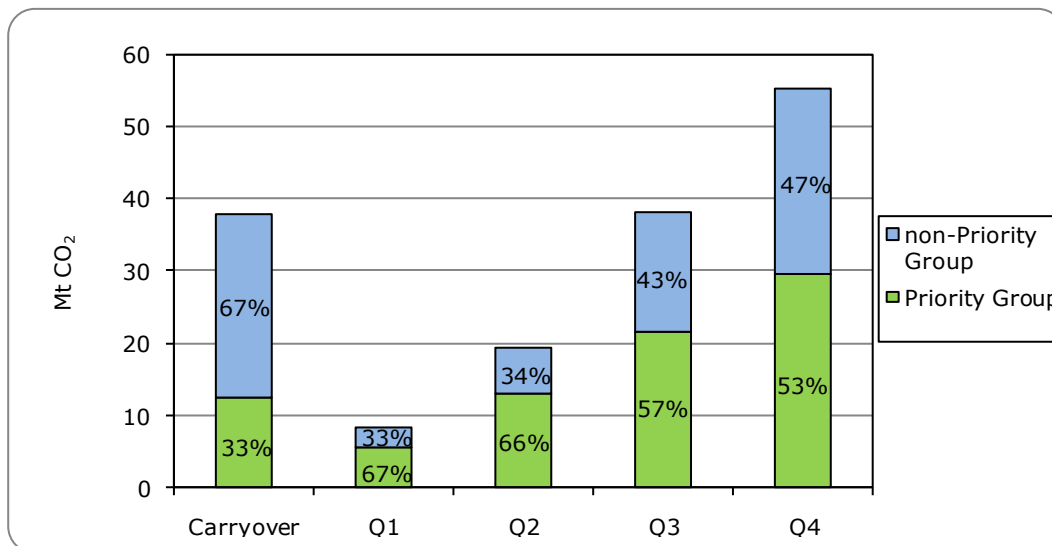
Figure 2.2. Achieved carbon emissions savings by measure type



### The Priority Group

2.8. Of the total savings achieved by the end of the first year of CERT (including carryover) just over 45 per cent resulted from measures installed in, or provided to, the Priority Group households. This equates to around 42 million lifetime tonnes carbon dioxide. This is above the minimum 40 per cent required by the legislation and indicates that the suppliers are on target to meet their Priority Group obligations. The remaining 55 per cent resulted from measures promoted to non-Priority Group households. This equates to around 51 million lifetime tonnes carbon dioxide.

Figure 2.3. Achieved carbon emission savings by consumer type



2.9. Figure 2.3 shows the breakdown of savings achieved during the first year, split by the Priority Group and the non-Priority Group. The chart shows that by the end of the first year of CERT, savings achieved in the Priority Group (excluding carryover) accounted for 53%.

2.10. A high level of activity in the Priority Group, particularly during the first two quarters, is attributable to two factors. The first is the addition of the over 70s into the Priority Group. This was new to CERT and in effect provided a new market to the suppliers who were finding Priority Group households hard to find in EEC2. The second factor is that take-up in the Priority Group may have been higher given the current economic climate. Suppliers tend to deliver measures to the Priority Group free of charge, whereas the non-Priority Group are expected to contribute, which they could be finding difficult during the credit crunch.

2.11. Figure 2.4 shows the proportion of savings achieved at the end of the first year of CERT, by measure type, and split between Priority Group and non-Priority Group. Table 2.1 shows these savings as percentages. It can be seen that the pattern of savings is roughly similar across the consumer groups with slightly more insulation activity taking place in the Priority Group.

Figure 2.4. Achieved carbon emissions savings by measure type and consumer type

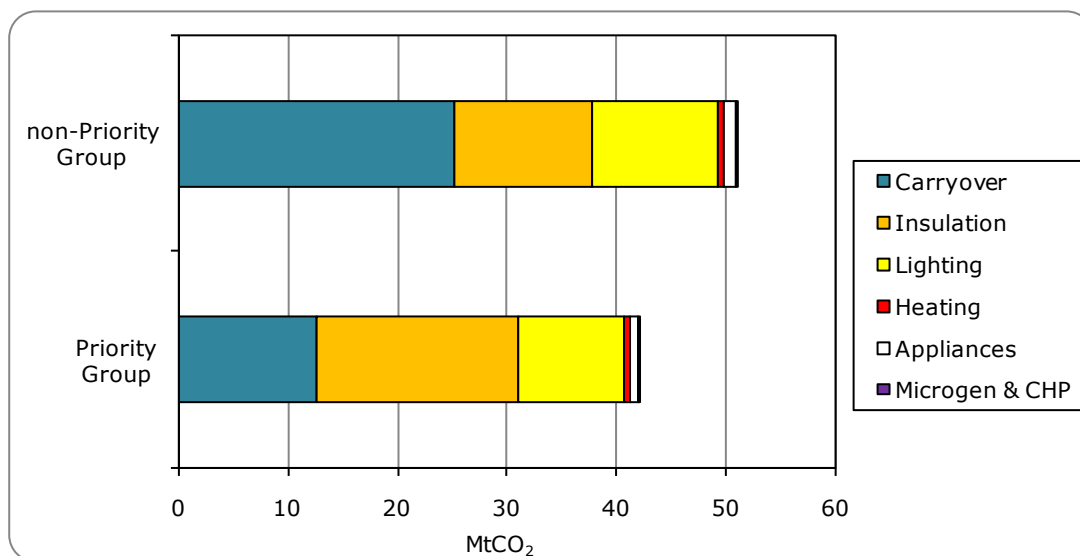


Table 2.1. Carbon emissions savings in the Priority Group or non-Priority Group as a percentage of total savings achieved

Measure	EEC2 Carryover	Insulation	Lighting	Appliances	Heating	Microgen & CHP	Total
Priority Group	13.5 per cent	19.8 per cent	10.4 per cent	0.8 per cent	0.6 per cent	0.0 per cent	45.1 per cent
non-Priority Group	27.1 per cent	13.4 per cent	12.3 per cent	1.2 per cent	0.6 per cent	0.2 per cent	54.9 per cent

### 3. Each supplier's progress

#### Chapter Summary

This chapter documents each supplier's progress to the end of the first year of CERT. The information presented in this chapter is based on the suppliers' schemes and the related quarterly statistics which they submit to Ofgem.

This chapter presents information on:

- each supplier's progress towards its obligation by the end of the first year of CERT
- the proportion of carbon savings each supplier delivered to the Priority Group by the end of the first year of CERT.

This chapter fulfils Ofgem's reporting duties to the Secretary of State on each supplier's progress towards its carbon emissions reduction obligation.

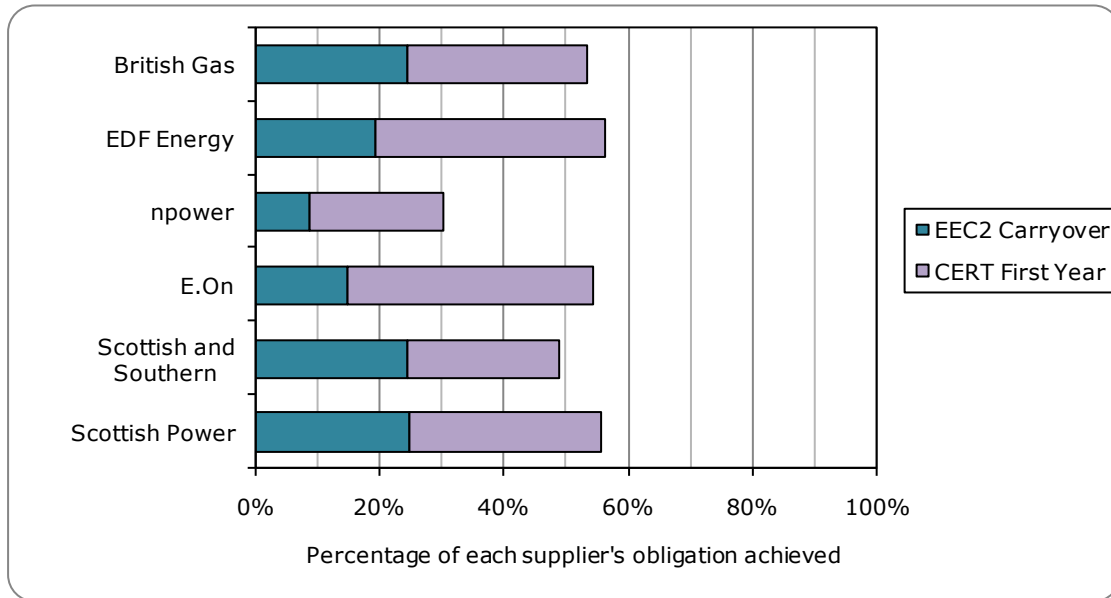
3.1. In 2008, six suppliers were set a carbon emissions reduction obligation according to the number of customers on their licences. A list of these obligated licensees is shown in Appendix 1 (page 36). Each supplier's obligation is calculated by Ofgem in February of each year. Ofgem will set the final obligations for CERT in February 2010. The achieved carbon savings detailed in this chapter have been compared against the each supplier's estimated final obligation, calculated based on their most recent customer numbers (as at 31 December 2008) and the new target.

3.2. The suppliers meet their obligations by setting up schemes to promote and deliver reductions in residential carbon dioxide emissions. The suppliers have flexibility in choosing the measure types that they promote to consumers. Based on a published set of guidelines, Ofgem assesses whether the suppliers' proposals meet the requirements and promote a reduction in carbon dioxide emissions.

3.3. As part of its administrative duties, Ofgem also monitors each supplier's progress and compliance against their obligation. For each scheme Ofgem determines whether the activity can be considered as qualifying action under the Order, i.e. that it would lead to an improvement in energy efficiency that would not have otherwise happened, and therefore whether the activity can count towards meeting a supplier's target. All the measure installations must be completed by 31 March 2011 and the completion reports submitted to Ofgem by 30 April 2011.

3.4. Figure 2.1 provides a summary of the achieved carbon savings for each obligated supplier. These are shown as a percentage of each supplier's total carbon emissions reduction obligation. The achieved carbon savings for each supplier are further broken down to display the proportion carried forward from EEC2 and the proportion delivered in the first year of CERT.

Figure 3.1. Each supplier's achieved carbon emissions savings as percentages of their overall obligations

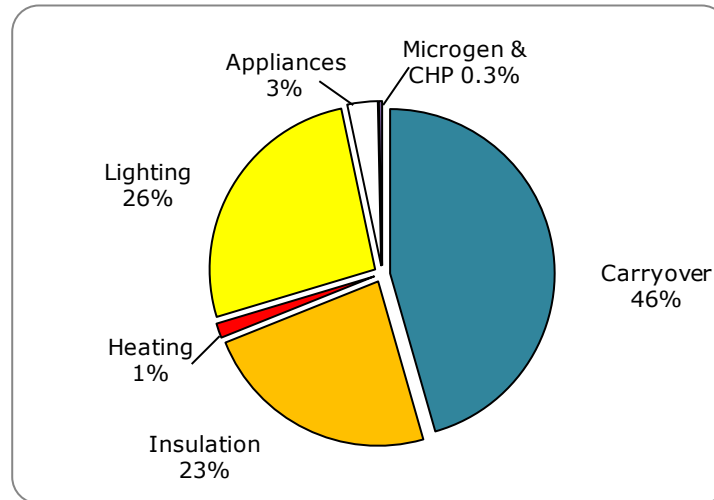


### British Gas

3.5. As shown in Figure 3.1, British Gas achieved 54 per cent of its obligation by the end of the first year of CERT. A quarter of British Gas' obligation has been met with the carbon savings from EEC2 carryover with the remaining 30 per cent being met through CERT activity. By the end of the first year of CERT, British Gas had 20 scheme proposals approved by Ofgem.

## Achieved savings

Figure 3.2. British Gas - achieved carbon emissions savings by measure type



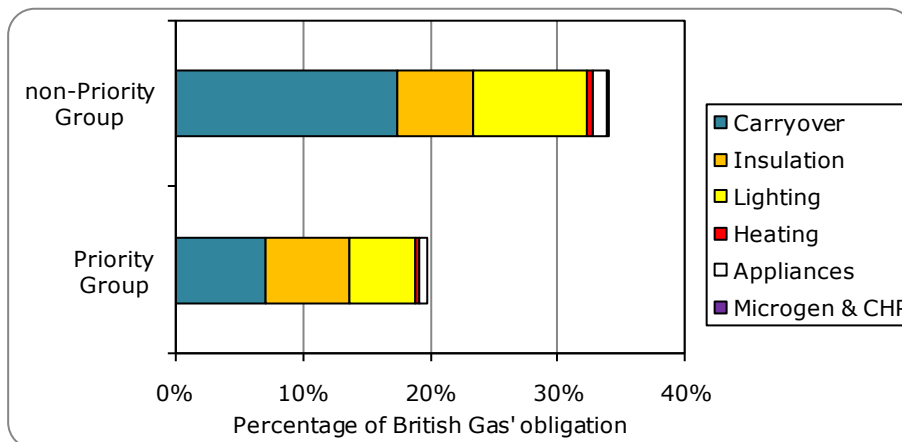
3.6. As shown in Figure 3.2, by the end of the first year British Gas had delivered just under a quarter of its carbon savings through insulation measures installed in CERT. This was split mainly between cavity wall insulation and loft insulation with British Gas carrying out more loft insulation activity than cavity wall. In addition, a number of solid wall insulation measures were promoted. A number of delivery routes were used to achieve this including direct targeting of the owner-occupier sector and through partnerships with SHPs. British Gas has also promoted DIY loft insulation measures through a retail partnership.

3.7. Energy savings from lighting measures account for just over a quarter of British Gas' savings to date. This is mainly the result of a large free giveaway promotion to their customer base. They have also promoted lighting through retail partners and SHPs. The scale of these types of promotions and giveaways during the first year of CERT has led to lighting accounting for a much higher proportion of savings (38 per cent of overall savings achieved in the first year of CERT) than seen in EEC2.

3.8. The remainder of the British Gas' savings to date have come from promotion of energy efficient appliances, heating, and a small amount of microgeneration activity. The latter two have been achieved by schemes predominantly promoting switching heating fuels to lower carbon fuels, and by the installation of heat pumps. Appliance savings have been achieved through a number of manufacturer and retail partnerships; white goods and consumer electronics have been successfully promoted through this route.

### Targeting the Priority Group

Figure 3.3. British Gas - achieved carbon emissions savings by consumer type as a percentage of its obligation



3.9. As shown in Figure 3.3, British Gas has achieved 20 per cent of its obligation in the Priority Group and 34 per cent of its obligation in the non-Priority Group. British Gas are on track to meet 40% of their obligation from the Priority Group by the end of the programme.

3.10. Carryover from EEC2 was weighted towards the non-Priority Group, with 17 per cent of British Gas' progress towards its carbon emissions reduction obligation being met through this category, compared to 7 per cent in the Priority Group.

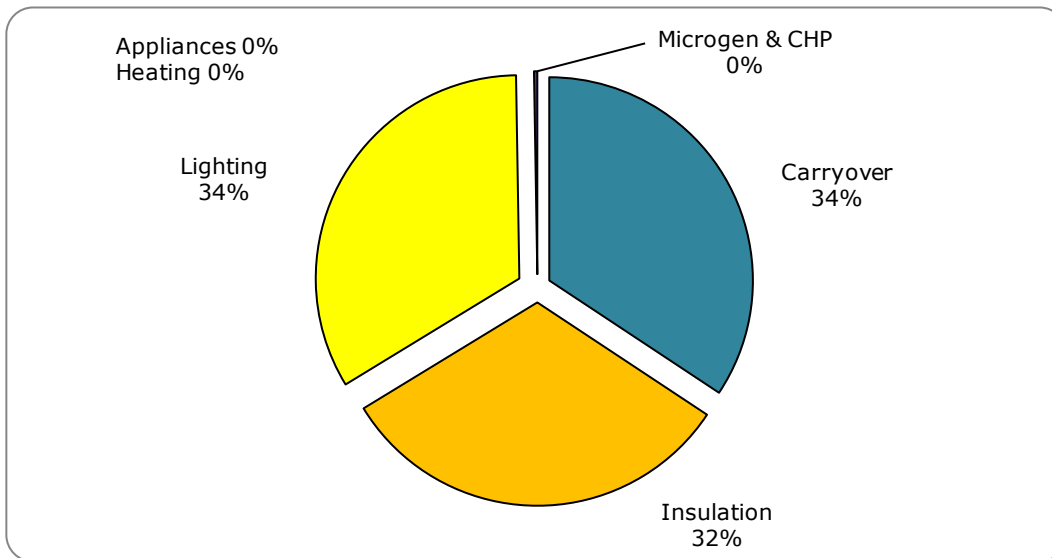
3.11. By the end of the first year of CERT, similar amounts of carbon savings from insulation measures had been delivered to both groups. Carbon savings from lighting were higher in the non-Priority Group and account for the majority of the relative difference between the two groups in the first year.

### EDF Energy

3.12. As shown in Figure 3.1, EDF achieved just over 56 per cent of its obligation by the end of the first year of CERT. Along with Scottish Power, EDF is the supplier who has made the greatest progress to its overall obligation. A fifth of EDF's progress towards its carbon emissions reduction obligation has been met with the carbon savings from EEC2 carryover. By the end of the first year of CERT, EDF had 11 scheme proposals approved by Ofgem.

**Achieved savings**

Figure 3.4. EDF Energy - achieved carbon emissions savings by measure type



3.13. As shown in Figure 3.4, EDF has delivered around a third of its carbon savings to date through insulation measures installed in CERT. These were split mainly between cavity wall insulation and loft insulation with loft insulation having a higher proportion. These savings were achieved predominantly through targeting the owner-occupier sector as well as through partnerships with SHPs, for instance. Like most other suppliers, EDF has also promoted DIY loft insulation measures through a retail partnership.

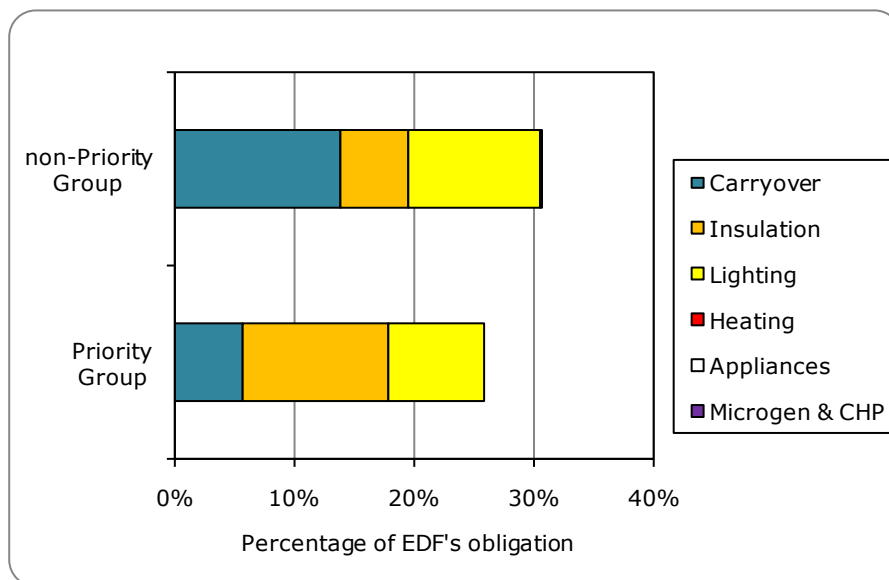
3.14. Energy savings from lighting measures account for another third of EDF's savings to date. This is a result of a number of promotions through retail outlets, giveaways to their own customer base and partnerships with SHPs. The scale of these promotions and giveaways during the first year of CERT has led to lighting accounting for a high proportion of EDF's savings.

3.15. The remainder of EDF's savings to date have come from a small amount of microgeneration activity. This was delivered through the installation of heat pumps in private households.



### Targeting the Priority Group

Figure 3.5. EDF Energy - achieved carbon emissions savings by consumer type as a percentage of its obligation



3.16. As shown in Figure 3.5, EDF has achieved approximately 26 per cent of its obligation in the Priority Group and 31 per cent of its obligation in the non-Priority Group.

3.17. Carryover from EEC2 was weighted towards the non-Priority Group, with 14 per cent of progress towards EDF's carbon emissions reduction obligation being met through this category, compared to 6 per cent in the Priority Group.

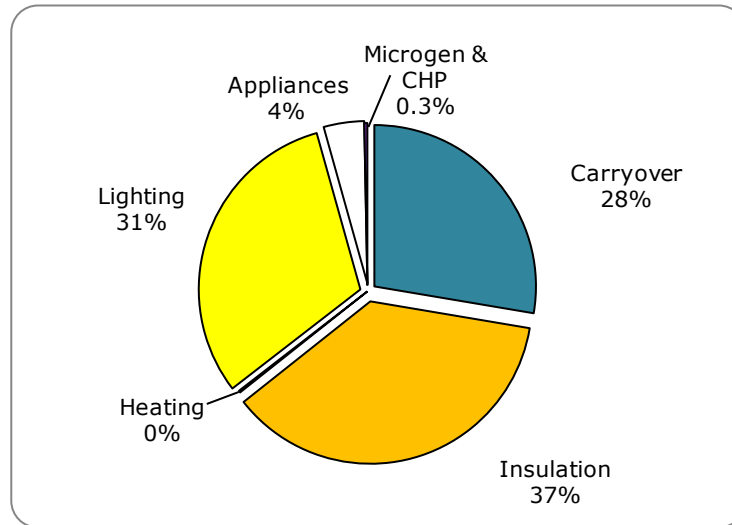
3.18. Of the insulation measures delivered by EDF in the first year of CERT, two thirds of the carbon savings were achieved in the Priority Group. However, savings delivered through lighting promotions showed the opposite trend, with savings in the non-Priority Group being around 40 per cent greater.

### E.on

3.19. As shown in Figure 3.1, E.on has met around 55 per cent of its obligation at the end of the first year of CERT. Only 15 per cent of its total obligation was met through EEC2 carryover, whilst nearly 40 per cent of its overall obligation was delivered through activity in the first year - making it, relative to the size of its obligation, the most active supplier in this period. E.on had 29 schemes approved by Ofgem by the end of the first year of CERT, the highest number of all the suppliers.

## Achieved savings

Figure 3.8. E.on - achieved savings by measure type



3.20. As show in Figure 3.8, insulation accounts for over a third of activity achieved in the first year. To date, a fifth of E.on's total obligation has been met by insulation. This was achieved mainly through the promotion of cavity wall insulation measures and loft insulation measures. Energy savings from insulation have been achieved through targeting the owner-occupier sector as well as through partners such as SHPs. Like the majority of other suppliers, E.on has also promoted DIY loft insulation measures through a retail partnership.

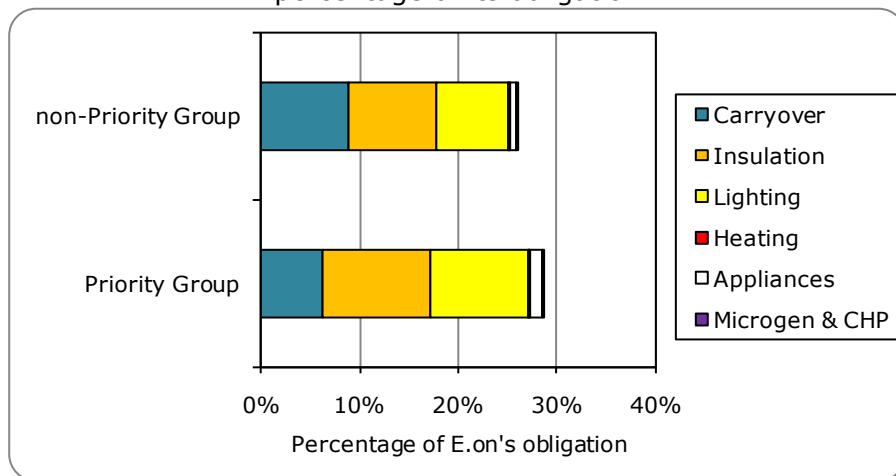
3.21. E.on's lighting activity accounts for a further 31 per cent of its progress so far. This has been achieved through a number of delivery routes including newspaper promotions and retail partnerships.

3.22. Savings achieved through appliances account for 4 per cent of E.on's activity to date. At around 2 per cent of their total obligation, E.on is supplier that has delivered the highest proportion of its obligation through promotion of this activity. These savings have predominantly been achieved through a number of consumer electronics schemes.

3.23. The remainder of E.on's delivered CERT savings have been achieved through the installation of ground source heat pumps and the only small scale CHP project installed by any supplier so far under CERT.

**Targeting the Priority Group**

Figure 3.9. E.on - achieved carbon emissions savings by consumer type as a percentage of its obligation



3.24. Whilst the non-Priority Group accounted for the greater proportion of E.on's carryover, just over half of E.on's savings to date have been delivered in the Priority Group. This is accounted for by high insulation and lighting activity in the Priority Group in the first year of CERT.

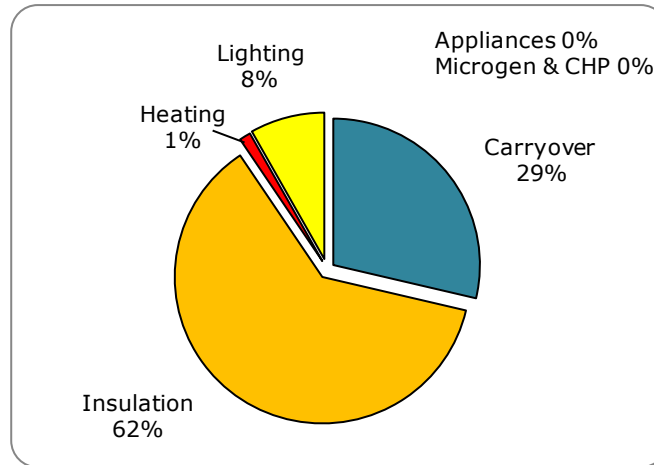
3.25. As shown in Figure 3.9, actual savings from lighting and insulation were higher in the Priority Group, although activity in the non-Priority and Priority Groups were comparable in their relative proportions.

**npower**

3.26. By the end of the first year, npower has met just under one third (30 per cent) of its obligation. Only 9 per cent of progress towards its obligation was met through carryover. This makes npower the supplier which has met the lowest proportion of its obligation through both carryover and first year activity. At the end of the first year of CERT, npower had 11 schemes approved by Ofgem.

## Achieved savings

Figure 3.6. npower - achieved carbon emissions savings by measure type



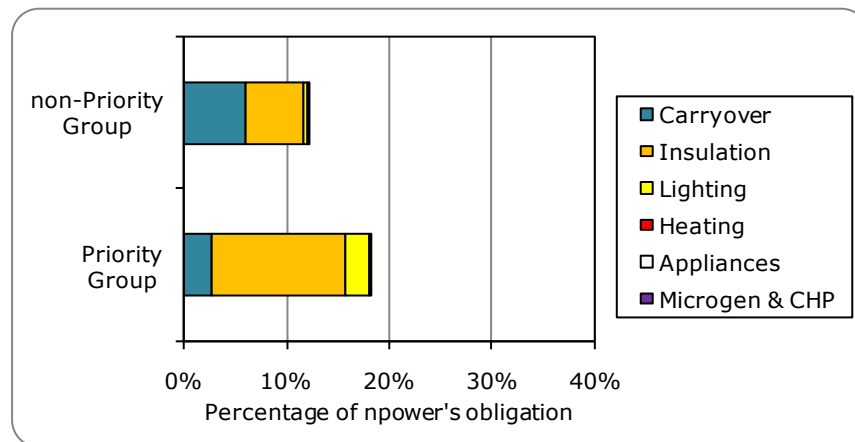
3.27. Whilst npower has shown the least progress towards its obligation, it is one of the obligated suppliers that have not yet run a direct CFL giveaway scheme to their own customer base. Indeed, lighting accounts for only 11 per cent of npower's delivered savings in the first year of CERT. The promotion of CFLs makes up the smallest proportion of any of the suppliers' overall activity.

3.28. As shown in Figure 3.6, insulation accounts for the largest proportion of npower's savings to date, making up 62 per cent of its progress towards its carbon emissions reduction obligation. Furthermore, the relative scale of the insulation savings achieved in the first year are comparable to those delivered by other suppliers, at around a fifth of their overall target. npower have achieved this mainly through cavity wall insulation and loft insulation, with loft insulation achieving the highest proportion.

3.29. A small heating scheme completes their delivered savings to date, with a number of households being switched to a lower carbon heating fuel.

## Targeting the Priority Group

Figure 3.7. npower - achieved carbon emissions savings by consumer type as a percentage of its obligation



3.30. As shown in Figure 3.7, npower has achieved 18 per cent of its progress towards its carbon emissions reduction obligation in the Priority Group and 12 per cent in the non-Priority Group.

3.31. Carryover from EEC2 was weighted towards the non-Priority Group. However, of all the suppliers, npower has delivered the highest proportion of savings to the Priority Group in the first year of CERT with 60 per cent of the savings delivered. This may in part be due to the lower level of lighting activity from npower compared to other suppliers; customer base direct mail giveaways tend to be weighted towards the non-Priority Group. It could also reflect npower's focussing of activity in the Priority Group in the first year and that npower, of all the suppliers, have met the smallest share of their obligation.

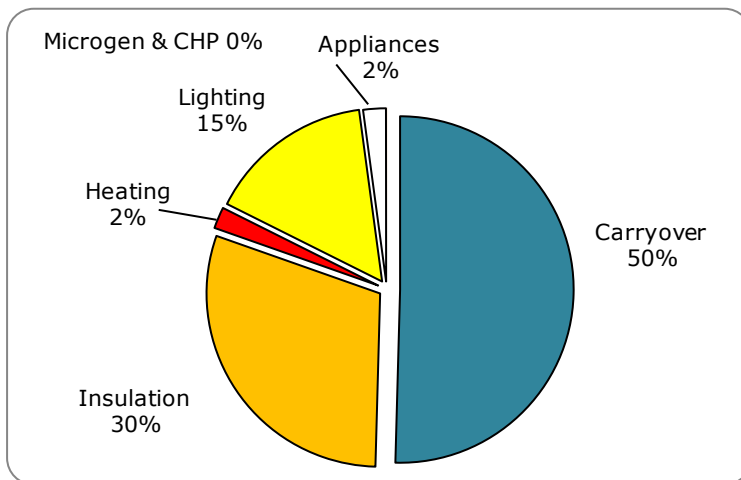
3.32. The majority of the Priority Group savings were delivered via insulation schemes, this route accounts for 13 per cent of npower's overall obligation. This represents, in real terms, a much higher proportion than the insulation savings that were delivered to the non-Priority Group. Along with Scottish Power, this is the highest proportion delivered to the Priority Group through this route to date.

## Scottish and Southern Energy

3.33. As shown in Figure 3.1, Scottish and Southern Energy (SSE) had met half of its overall carbon emissions reduction obligation by the end of the first year of CERT. Half of these savings, accounting for a quarter of SSE's overall obligation, were provided by carryover from EEC2. SSE had 13 schemes approved by Ofgem by the end of year one.

**Achieved savings**

Figure 3.10. Scottish and Southern Energy - achieved carbon emissions savings by measure type



3.34. Of all the obligated suppliers, SSE has met the highest proportion of savings to date through carryover, at 50 per cent, see Figure 3.10.

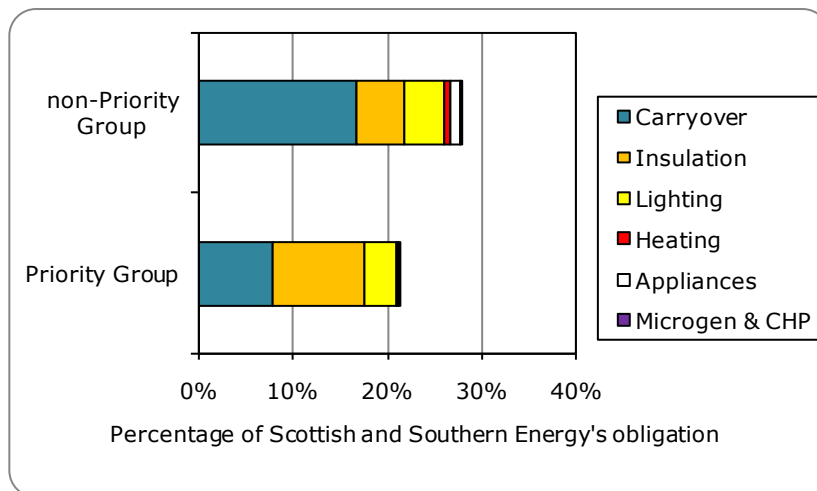
3.35. Activity in the first year of CERT has been weighted towards insulation, at 60 per cent, with comparable levels of cavity wall and loft insulation being installed. Of note, however, is the level of solid wall insulation promoted by SSE. In the first year of CERT, SSE achieved the highest level of solid wall activity of all the obligated suppliers.

3.36. Lighting schemes, delivered via a variety of routes including free giveaways and retail schemes, account for 15 per cent of SSE's progress to date and around a third of first year activity.

3.37. Heating and appliance schemes account for the remainder of SSE's activity. These carbon dioxide savings have been achieved through the switching of households to lower carbon intensive fuels, as well as through the promotion of appliances such as white goods.

### Targeting the Priority Group

Figure 3.11. Scottish and Southern Energy - achieved carbon emissions savings by consumer type as a percentage of its obligation



3.38. As shown in Figure 3.11, activity to date towards the overall obligation in the Priority and non-Priority Groups has been split 21 per cent and 28 per cent respectively. However, the majority of the non-Priority Group activity is accounted for in EEC2 carryover; most of the activity in the first year of CERT has therefore been in the Priority Group.

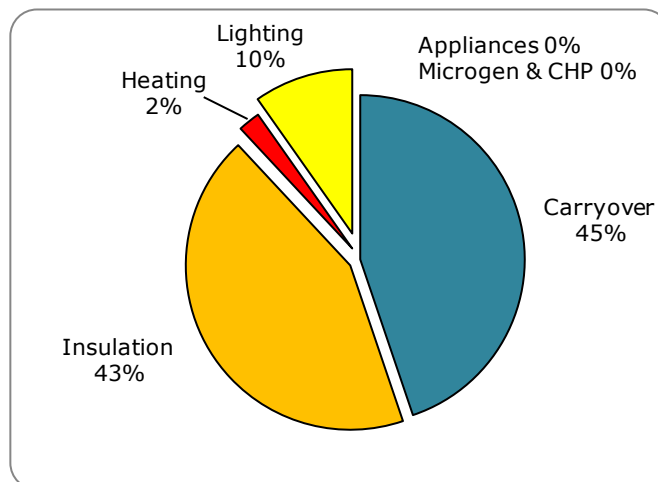
3.39. Insulation accounted for over two thirds of savings in the Priority Group in the first year. Lighting schemes, as with other suppliers, showed the opposite trend, with higher activity in the non-Priority Group. Savings achieved through appliances were seen exclusively in the non-Priority Group.

### Scottish Power

3.40. As shown in Figure 3.1, by the end of the first year of CERT Scottish Power had met 56 per cent of its carbon emissions reduction obligation. Of their overall obligation, 25 per cent is accounted for by EEC2 carryover with the further 31 per cent by first year activity. Along with EDF Energy, this makes Scottish Power the supplier who has made the most progress towards its obligation. At the end of the first year of CERT, Scottish Power only had four schemes approved by Ofgem, the fewest of any supplier.

## Achieved savings

Figure 3.12. Scottish Power - achieved carbon emissions savings by measure type



3.41. As shown in Figure 3.12, insulation accounts for the vast majority of Scottish Power's first year activity. This is split mainly between cavity wall insulation and loft insulation, with cavity wall insulation achieving the highest proportion. This bucks the general trend amongst suppliers where loft insulation has tended to be slightly more prominent. A small number of solid wall insulations were also seen.

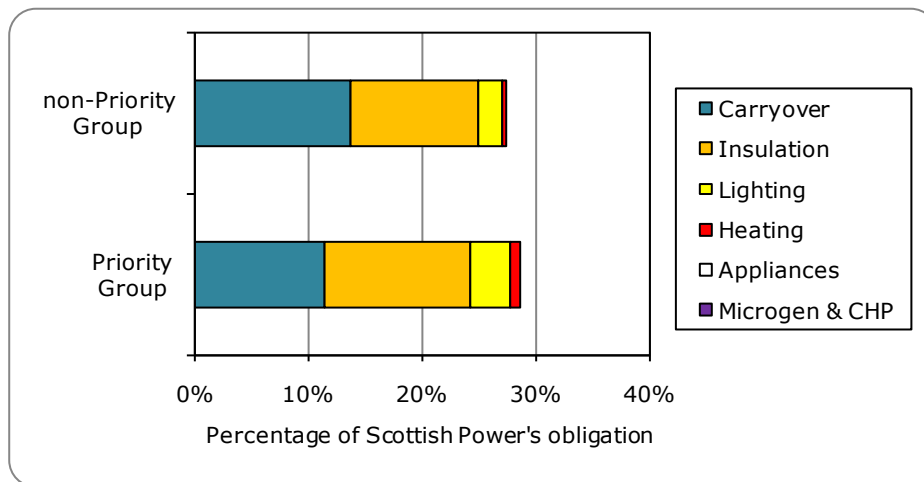
3.42. Lighting accounts for only 10 per cent of carbon savings to date; a much smaller proportion of activity compared to other suppliers. This is largely due to Scottish Power not having performed a customer base free mail-out.

3.43. Heating schemes accounted for just two per cent of activity to date. Furthermore, no appliance or microgeneration activity has been undertaken, nor have any schemes in these groups been approved.



**Targeting the Priority Group**

Figure 3.13. Scottish Power - achieved carbon emissions savings by consumer type as a percentage of its obligation



3.44. Similar savings have been delivered in the non-Priority and Priority Groups by Scottish Power to date. However, activity in the first year was weighted towards the latter.

3.45. As shown in Figure 3.13, just under half of carryover activity was in the Priority Group; this is the largest proportion of Priority Group carryover of all the suppliers.

3.46. Activity across insulation, lighting and heating, which make up all of Scottish Power's first year activity, represent similar proportions in the Priority and non-Priority Groups.

## 4. Measures delivered during the first year

### Chapter Summary

This chapter provides information on the types and volumes of measures that suppliers have promoted in the first year of CERT along with the proportion of carbon savings achieved. Where appropriate, the information presented covers the measures carried over from EEC2 in addition to those achieved in the first year of CERT.

This chapter also provides a brief overview of the take-up of demonstration action, market transformation action and the Priority Group flexibility mechanism.

4.1. Suppliers used a range of delivery mechanisms to deliver their obligations in the first year of CERT. These have included partnering with organisations such as Social Housing Providers (SHPs) and charities, promoting measures direct to householders, partnering with retailers and manufacturers, linking in with the Government's Warm Front programme and installing measures in new build properties in partnership with housing developers.

4.2. Table 4.1 details the numbers of installations in the first year of CERT, excluding EEC2 carryover, for the main measure types. Please note that this list is non-exhaustive, but represents the measures used to achieve the overwhelming majority of carbon savings to date.

Table 4.1. The number of measures installed, excluding carryover from EEC2

Measure	Number of measures installed
Cavity wall insulation	545,594
Loft insulation	689,353
Solid wall insulation	8,626
Fuel switching	15,733
CFLs	152,677,723
Heat pumps	545
Solar water heating	216
Small scale CHP	1

## Insulation

### Number of measures

4.3. In total, around 60 per cent of the carbon emissions reductions achieved by the end of the first year of CERT have come from insulation measures (see Figure 2.2

and Table 4.2). Loft insulation was the most popular insulation measure installed, with over 680,000 households benefiting. Cavity wall insulation was the second most popular insulation measure with over 540,000 households benefiting. Figures comparing professionally installed loft insulation with DIY installations are not available: the figures quoted are for professional installations only. Our final report to the Secretary of State in the summer of 2011 will contain this breakdown. Ofgem is, however, aware of a significant increase in DIY loft insulation activity following the Prime Minister's announcement in September 2008 which provided a significant incentive for its promotion.

4.4. Suppliers have also delivered solid wall insulation, with measures installed in over 8,500 households. These were mainly delivered through partnerships with SHPs. Other insulation measures that are being promoted include draught proofing, hot water tank jackets, DIY radiator panels, and window glazing.

4.5. The largest share of carbon savings achieved through insulation measures at the end of the first year of CERT was in the non-Priority Group. Table 4.2 shows the split of carbon savings achieved through insulation in the Priority and non-Priority Group at the end of the first year of CERT.

Table 4.2. The contribution to total carbon emissions savings from installed insulation to the end of year 1 of CERT, including EEC2 carryover

Priority Group	non-Priority Group
27.0 per cent	34.0 per cent

### **Delivery routes**

4.6. Insulation measures were delivered through a variety of routes including direct promotion to private householders, through partnerships with SHPs, and through working with the government's Warm Front programme.

4.7. Activity carried out in partnership with the SHPs is popular with the suppliers as it allows them to target large numbers of Priority Group householders, as well as lever in additional funding. In many instances suppliers are able to offer insulation to the Priority Group free of charge. When working with the Warm Front Scheme the suppliers fully fund the insulation measures (predominantly loft and cavity wall insulation), allowing the Warm Front grant to focus on heating measures.

## Lighting

### Number of measures

4.8. By the end of the first year of CERT lighting accounted for 31 per cent (Table 4.3) of the total carbon emissions reductions achieved. Suppliers delivered over 152 million lighting measures in the first year, nearly all of these were CFLs.

4.9. Lighting schemes are relatively straightforward to set up and deliver. All suppliers have lighting schemes and a total of 17 lighting schemes were approved in the first year of CERT. Table 4.3 shows that the emission reductions from lighting measures were mainly achieved in the non-Priority Group.

Table 4.3. The contribution to total carbon emissions savings from lighting installed to the end of year 1 of CERT, including EEC2 carryover

Priority Group	non-Priority Group
13.9 per cent	16.9 per cent

### Delivery routes

4.10. The types of lighting delivered are limited to those products accredited under the Energy Saving Trust's Energy Saving Recommended programme. The main delivery routes have been free give-aways, to the suppliers' own customers, in partnership with SHPs, and through promotions with commercial partners such as newspapers, as well as retail and mail order schemes.

4.11. When delivering (up to four) free CFLs, suppliers are required to cross-check their records to prevent double-counting. They are also required to monitor a percentage of the consumers receiving the CFLs to establish whether they will be used. Suppliers could choose to promote two free CFLs (instead of four) without the requirement to check records. Suppliers are also required to include a freepost address to allow unwanted CFLs to be returned.

4.12. Delivery of reduced-price CFLs through retailers has included partnerships with supermarkets, DIY outlets and other high street chains. Retailers were required to provide electronic point of sale (EPoS) data to confirm the number of measures sold to customers.

4.13. CERT has also seen CFLs promoted through free give-aways with newspapers. A number of these promotions have taken place with the CFLs being picked up by consumers as they purchase the paper (in a super-market or newsagent). Some promotions have also involved calling a hotline or sending off a request slip.

4.14. Although the suppliers do not expressly provide Ofgem with the split of savings between retail and free give-way schemes some initial analysis indicates that around 13 per cent of savings from activity in the first year came from retail CFL schemes. Free CFL give-aways accounted for 63 per cent of activity, with the remainder coming from 'mixed' retail/give-way schemes.

## Heating

### Number of measures

4.15. Heating measures contribute almost 6 per cent of the total carbon savings achieved to date (Table 4.4). This includes fuel switching, achieved in 15,700 households, and the promotion of heating controls (for example room thermostats). The majority of the emissions reductions achieved have been delivered to the Priority Group. The scope for heating measures within CERT is however limited as the boiler market has been transformed.

Table 4.4. The contribution to total carbon emissions savings from heating installed to the end of year 1 of CERT, including EEC2 carryover

Priority Group	non-Priority Group
3.3 per cent	2.4 per cent

### Delivery routes

4.16. Schemes were delivered in partnership with SHPs and through promotions to private householders. In February 2009 Ofgem announced that the early replacement of g-rated boilers would be an eligible measure under the CERT. To date, little or no activity has been seen in this area. We have however committed to reviewing these requirements over the summer.

## Appliances

### Number of measures

4.17. Carbon savings achieved by appliances make up 2 per cent of the total achieved in the first year. This low share reflects both the relatively small carbon

saving that is achieved per measure, the relatively higher costs that these schemes can attract, and the fact that for many of the appliances the market has been transformed. Only three of the six obligated suppliers have achieved appliance savings in the first year of CERT.

4.18. Appliances that are eligible under CERT include cold appliances rated A+ or A++ (excluding chest freezers, for which A rated appliances are permitted), integrated digital TVs (IDTVs) with a screen size less than 22 inches, standby savers and energy efficient kettles. Some suppliers have explored using other products, being awarded scores for innovative consumer electronics and information and communications technology measures.

Table 4.5. The contribution to carbon emissions savings from appliances installed to the end of year 1 CERT, including EEC2 carryover

Priority Group	non-Priority Group
0.8 per cent	1.3 per cent

### Delivery routes

4.19. Cold appliances are eligible in three ways:

- incentive schemes (where the supplier incentivises more efficient appliances to a consumer who is already intending to purchase an appliance);
- trade-in schemes (where consumers replace appliances with a more efficient equivalent); or
- fridgesaver schemes (similar to the trade-in scheme but limited to the Priority Group).

4.20. Both the trade-in and fridgesaver scheme require existing appliances to be destroyed in a specified manner. The majority of schemes delivering appliances have been carried out in partnership with a manufacturer. Promotion in retail stores has also been a popular delivery method.

## Microgeneration and CHP

### Number of measures

4.21. In total, microgeneration and CHP measures contribute 0.2 per cent of the total carbon savings achieved to date. Of the most common measures, heat pumps have

been installed in 550 households and solar water heating in 216. The majority of the emissions reductions achieved were delivered to the non-Priority Group.

Table 4.6. The contribution to carbon emissions savings from microgeneration and CHP installed to the end of year 1 CERT, including EEC2 carryover

Priority Group	non-Priority Group
0.0 per cent (0.04 per cent)	0.2 per cent

### Delivery routes

4.22. Microgeneration and CHP schemes were delivered exclusively through three routes:

- in partnership with SHPs;
- through promotion to private householders (with professional installation); and
- in new build properties in partnership with housing developers.

### Demonstration action

4.23. Demonstration actions are trials, performed under the Order, for measures to which a firm quantified carbon saving cannot yet be attributed. In order to qualify the measures must be reasonably expected to achieve a reduction in carbon emissions. Suppliers receive a carbon return based on the level of their investment. Eight demonstration action proposals were submitted during the first year of CERT; four of which have been approved. No demonstration actions have yet been completed or carbon savings and lifetime awarded.

4.24. Demonstration action provides an alternative route to the more traditional independent trial route, which is done at the expense of the manufacturer and/or supplier. Under demonstration action suppliers receive the carbon return (based on their investment) irrespective of whether or not the trial produces quantifiable savings for the product. DECC introduced this delivery route to encourage innovation and early signs are that suppliers are choosing this route for a number of different technology types, some that are known, but not quantified, and some that are new and innovative.

4.25. Upon completion of a demonstration action the results will be published and, where appropriate, a carbon saving and lifetime score awarded. At this point suppliers are free, should they choose, to promote the product as a standard or market transformation action under the programme.

## **Market transformation action**

4.26. Measures eligible as market transformation action include microgeneration and solid wall insulation. They also include measures that will achieve a reduction in carbon emissions but that were not determined to be a qualifying action under EEC1. Measures similar to those promoted under EEC1 must pass a 'significantly greater than' test (in relation to savings) in order to qualify. The savings attributed to these actions are eligible for 50 per cent uplift, capped at 10 per cent of a supplier's obligation, including any demonstration activity, with an additional 2 per cent for microgeneration.

4.27. Early indications have shown that some suppliers are intending to claim some actions as market transformation, however, it is not yet possible to calculate the scale of savings they intend to claim.

## **Priority Group flexibility mechanism**

4.28. This mechanism allows suppliers some flexibility in reaching their target for savings in the Priority Group. The measures permitted in this mechanism are ground source heat pumps and a defined level of solid wall insulation. They are aimed at those off gas grid and in hard to treat homes. Householders eligible for these measures, under the Priority Group flexibility mechanism, must be in the benefits sub-set of the Priority Group. The carbon savings achieved through this mechanism are eligible for uplifts. The factor of the uplift differs for each measure type.

4.29. Two schemes have been approved under the Priority Group flexibility mechanism, proposing carbon savings (including the uplift) of 2 million lifetime tonnes carbon dioxide (equivalent to 1.1 per cent of the overall CER target). These schemes have proposed achieving reductions through both ground source heat pumps and solid wall insulation. As yet, no carbon savings have been banked from either scheme.



## 5. Trend analysis

### Chapter Summary

This chapter highlights the key issues and trends that have arisen during the first year of CERT.

The analysis is based on the first year of the programme and represents our initial findings so far. In our report on the second year of the programme we will be able to compare year on year data and provide further evaluation.

### The progress in the first year

5.1. There has been a high level of activity from the suppliers during the first year of CERT. This activity, coupled with the measures that the suppliers carried over from EEC2, indicates that the suppliers are approximately half-way towards meeting the new CER target of 185 million lifetime tonnes of carbon dioxide. In the first year of CERT suppliers achieved around 38 per cent of the residual target (the target, excluding EEC2 carryover) indicating that they are well on track to meet the overall target.

5.2. By the end of the first year of the CERT programme 45 per cent of the progress has been targeted at the Priority Group. Excluding carryover, this figure rises to 53 per cent suggesting that the suppliers are well on target to meet their Priority Group obligations. The high proportion of Priority Group activity during the first year of CERT is due to the inclusion, for the first time, of the over 70s in this group.

5.3. By the end of the first year suppliers had achieved approximately 93 million lifetime tonnes of carbon dioxide savings against the 185 million lifetime tonnes carbon dioxide overall target - leaving half the overall target still to be achieved. Considering the level of activity during the first year, if suppliers could maintain this, they would be expected to meet the overall target sometime towards the end of 2010.

5.4. Certainty over carryover from one programme to the next has always been key in encouraging the suppliers to continue with activity above and beyond the target, allowing for a smooth transition to a new programme. DECC have indicated, as part of the Heat and Energy Saving Strategy Consultation<sup>1</sup>, that CERT may be extended until December 2012. This is due to be consulted on towards the end of this year. It will be important for the issue of carryover to be addressed both in terms of any extension to CERT and perhaps more importantly for any future schemes (post-2012). We will continue to monitor suppliers' progress towards meeting their obligations and advise DECC accordingly.

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<sup>1</sup>The Heat and Energy Saving Strategy Consultation; <http://hes.decc.gov.uk/>

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## Market analysis

5.5. Insulation measures have dominated the carbon dioxide savings achieved by suppliers as they lead to large cost effective carbon savings, they have been closely followed by lighting. Insulation accounted for 56 per cent of savings achieved in the first year (excluding the carryover from EEC2) with lighting accounting for another 38 per cent. A comparison with the first year of EEC2 shows a drop in the proportion of savings from insulation with the proportion achieved by lighting rising significantly.

5.6. The CERT programme encourages suppliers to deliver the most cost effective measures in terms of carbon saved per pound spent by the supplier. Whilst this is good for consumers in that it helps to keep the cost of CERT down, it is important that the measures delivered are effective and that carbon savings are realised. The first year of CERT has seen surges of activity particularly around DIY loft insulation and CFLs, and concerns have been raised as to whether carbon savings were being realised. The Government has decided to address these concerns in its amendments to the CERT by only permitting retail CFLs from 1 January 2010 and removing the incentive for DIY loft insulation.

5.7. While suppliers are not required to report their costs, analysis based on DECC's cost estimate of £3.2 billion for CERT indicates that the suppliers, in achieving 50% of the overall target, would have spent in the region of £1.6 billion. Lighting activity in the first year accounts for just under 23% of this, at just over £350 million. Assuming 26 million households in GB this equates to £14 per household. These figures emphasise how important it is to ensure the efficient design of the government's environmental programmes, given their scale.

5.8. Eoin Lees' review and analysis of EEC2 indicated that suppliers' actual costs for that programme were £915 million, 23% less than DECC's Illustrative Mix cost estimate of £1,188 million. However, if measures are not utilised as much as expected and carbon savings not realised, then the cost of carbon will increase.

## Measures the suppliers have used

5.9. Suppliers delivered over 150 million CFLs during the first year of CERT (this excludes approximately 50 million carried over from EEC2). These were promoted using a variety of delivery methods including direct mail-outs to their customer base, promotions with Local Authorities or SHPs, promotions via newspapers and direct retail. Whilst the delivery of CFLs has been in line with Ofgem's supplier guidance, many more have been delivered than DECC estimated in the Illustrative Mix<sup>2</sup>.

5.10. Insulation activity has primarily been split between cavity wall insulation and loft insulation. In Quarter 4 of the first year there was a noticeable increase in the level of loft insulation activity. This will have been driven by the Prime Minister's

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<sup>2</sup> Explanatory Memorandum to the Electricity and Gas (Carbon Emissions Reduction) Order 2008; [http://www.opsi.gov.uk/si/si2008/em/uksiem\\_20080188\\_en.pdf](http://www.opsi.gov.uk/si/si2008/em/uksiem_20080188_en.pdf)

announcement in September, the subsequent proposals to provide additional uplifts for loft insulation and Ministerial encouragement for the suppliers to begin activity early.

5.11. Solid wall insulation figures for the first year of CERT show that around 8,500 measures were installed. Solid wall insulation is less cost effective than cavity wall insulation and it can involve some disruption to the householder. As such, the numbers of these insulation measures installed tend to be much lower. The introduction of the new Community Energy Savings Programme later this year will look to address this.

5.12. The scale of CERT and its incentives for innovative action has encouraged the suppliers to look at new and innovative ways of meeting their obligations. Many of the suppliers have continued to invest in consumer electronics and CERT can be seen to be a key component in driving energy efficiency forwards in this area. Suppliers have also come forward with demonstration action proposals looking at a wide variety of new and existing technologies.

## **Targeting the Priority Group**

5.13. In the first year of the CERT programme suppliers' activity in the Priority Group has been heavily influenced by the inclusion of the over 70s. This has provided the suppliers with an untapped market and, given the scale of the programme and obligations, the suppliers have been actively promoting measures to the Priority Group.

5.14. The inclusion of the over 70s in the Priority Group however has taken the focus away from those on a low income (i.e. those on benefits). This will have implications for the contribution the CERT programme is making towards the government's Fuel Poverty programme, as this change in demographic will influence the number of fuel poor consumers targeted by the suppliers. In addition, the suppliers have only carried out a very limited amount of Priority Group flexibility activity: this emphasises that the companies have, to date, not found it difficult to comply with their Priority Group obligations. The measures delivered to the Priority Group in the first year of CERT are dominated by insulation with lighting following closely behind.

5.15. Suppliers used a variety routes for delivering measures to the Priority Group. The first year of CERT has seen delivery routes including partnerships with SHPs, direct marketing to the owner-occupier sector, and integrating solutions with other government programmes such as the Warm Front Scheme (where Warm Front provides the heating system and the CERT supplier provides the insulation).

## **Delivery implications**

5.16. With direct CFLs becoming ineligible under the CERT, from 1 January 2010, the suppliers will need to look at new measures and increase the delivery of existing measures in order to comply with their obligations. At the end of the first year

lighting accounted for 22.7 per cent of savings achieved (see Fig.2.2). Of that 63 per cent came from free give-away schemes, 13 per cent from retail schemes, with the remainder coming from 'mixed' schemes. If the savings from free give-away schemes are omitted (we have assumed a figure of 70 per cent of lighting from free give-aways here) from the savings achieved, then suppliers would have only achieved 42 per cent of the overall target (as opposed to 50 per cent). Excluding carryover this means that only 22 per cent of the overall target has been achieved by measures other than direct CFLs. If suppliers were to maintain this level of activity for the second and third year of the programme, then they would not have achieved enough carbon savings to comply with the overall target.

5.17. The high level of CFL activity has allowed the suppliers to avoid the promotion of higher cost measures such as microgeneration. The design of CERT is such that it encourages the suppliers to deliver the most cost effective measures and it is unlikely to deliver high cost measures at scale, unless this activity is prescribed. The government's proposals for Feed-in-Tariffs and the Renewable Heat Incentive will help drive the uptake of microgeneration.

5.18. Going forwards insulation activity seems likely to increase and dominate in the second and third years of CERT. This will put increased pressure on the insulation industry which has already seen rapid expansion in recent years. In the first year of EEC2 suppliers promoted 430,000 cavity wall insulation measures and 370,000 loft insulation measures. Three years later in the first year of CERT these figures had risen to 540,000 and 680,000 respectively. These increases will put pressure on prices. However, suppliers may also choose alternative routes and promote Real Time Displays and Home Energy Advice, in place of CFLs, although this activity will be capped at 2%.

## Costs

5.19. DECC have estimated that the cost to suppliers of meeting the overall CERT target will be roughly £3.2 billion (over the three years of the programme). This cost, which makes up around 3% of the average energy bill, is passed through to consumers. Given the anticipated changes in the way the suppliers will carry out their activity over the remainder of the CERT programme, it will be important to understand the implications of this. In our response to the recent consultation on the amendments to CERT we raised this issue and suggested that government may wish to consider conducting a thorough analysis on the exact nature of the costs associated with the programme.

5.20. Given the scale of the programme, the level of activity in the first year and the amendments to CERT, including the implications of the CFL ban, we believe that such an analysis would be highly beneficial in determining whether consumers are getting value for money and whether the suppliers are delivering the measures promoted in the most cost effective way possible. In a programme of the scale of CERT, minor inefficiencies in the delivery of measures could easily lead to many millions of pounds being wasted. Such analysis could provide valuable insight particularly in relation to the possible CERT extension and future supplier obligation scheme design.

## **The forthcoming year**

5.21. Ofgem will continue to work closely with the suppliers on their schemes, overseeing their progress and working with them to ensure that their banking and completion reports demonstrate that they have complied with the legislation. Ofgem will also continue to work closely with DECC on implementing the amendments to the CERT programme, on the possible extension of the programme to December 2012 and on the policy and design of the Supplier Obligation (post-CERT).

5.22. Ofgem will continue to monitor suppliers' schemes and publish data on a quarterly basis. We will also report to the Secretary of State on the second year of CERT in August 2010.

5.23. Over the coming year we will implement administrative arrangements for the CERT amendments. This includes arrangements for the promotion of Real Time Displays and Home Energy Advice and managing the final phase of CFL delivery under the CERT (bar retail). The Community Energy Savings Programme is also due to begin this year. We will therefore be carefully considering the interactions between the two programmes and making sure that we have robust and appropriate strategies in place to deter, prevent and detect double-counting between the schemes.

## Appendices

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## Appendix 1 - Supplier licences

Table 1.1 The supplier groups and their licences that have been set for the CERT 2008-2011

<b>Supplier</b>	<b>Licence</b>	<b>Fuel</b>
British Gas	British Gas Trading Limited	Gas
	British Gas Trading Limited	Electricity
EDF Energy	EDF Energy Customers Plc	Gas
	EDF Energy Customers Plc	Electricity
	Seeboard Energy Limited	Gas
	Seeboard Energy Limited	Electricity
npower	npower Commercial Gas Limited	Gas
	npower Direct Limited	Gas
	npower Direct Limited	Electricity
	npower Gas Limited	Gas
	npower Northern Supply Limited	Electricity
	npower Northern Limited	Gas
	npower Northern Limited	Electricity
	YE Gas Limited	Gas
	npower Limited	Electricity
	Gas Plus Supply Limited	Gas
	Electricity Plus Supply Limited	Electricity
	npower Yorkshire Limited	Gas
	npower Yorkshire Supply Limited	Electricity
E.ON Energy	E.ON Energy Limited	Gas
	E.ON Energy Limited	Electricity
Scottish and Southern Energy	Southern Electric Gas Limited	Gas
	SSE Energy Supply Limited	Electricity
Scottish Power	Scottish Power Energy Retail	Gas
	Scottish Power Energy Retail	Electricity

## Appendix 2 – The Authority’s Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority (“the Authority”), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 and the Energy Act 2008, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.<sup>3</sup>

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly<sup>4</sup>.

1.4. The Authority’s principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of existing and future consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- the need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- the need to secure that all reasonable demands for electricity are met;
- the need to secure that licence holders are able to finance the activities which are the subject of obligations on them<sup>5</sup>;
- the need to contribute to the achievement of sustainable development; and
- the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.<sup>6</sup>

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<sup>3</sup> entitled “Gas Supply” and “Electricity Supply” respectively.

<sup>4</sup> However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

<sup>5</sup> under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

<sup>6</sup> The Authority may have regard to other descriptions of consumers.



1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- promote efficiency and economy on the part of those licensed<sup>7</sup> under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity; and
- secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- the effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation<sup>8</sup> and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

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<sup>7</sup> or persons authorised by exemptions to carry on any activity.

<sup>8</sup> Council Regulation (EC) 1/2003

## Appendix 3 - Glossary

### Accreditation

The determination of the carbon emissions reduction and lifetime attributable to measures under the CERT.

### Banking

The process of suppliers submitting interim activity reports and Ofgem estimating their savings before the end of the programme.

### CERT

Carbon Emissions Reduction Target.

### CER target

The overall target for carbon emissions reduction, set by DECC under the order.

### CFLs

Compact Fluorescent Lamps (energy efficient light bulbs).

### CHP

Combined Heat and Power.

### DECC

Department of Energy and Climate Change.

### DIY

Do-it-yourself.

### EEC1

Energy Efficiency Commitment, 1 April 2002 - 31 March 2005.

### EEC2

Energy Efficiency Commitment, 1 April 2005 - 31 March 2008.

### EPoS

Electronic Point of Sale data - sales data from a retailer's computer system.

### EST

Energy Saving Trust.

### IDTV

Integrated digital television.

### Illustrative Mix

Defra's illustrative mix of measures is presented within its consultation document and indicates how suppliers might meet their carbon obligation. Suppliers are free to choose their own mix of measures or include other measures, subject to approval by Ofgem.

### LPG

Liquid petroleum gas.

### MtCO<sub>2</sub>

Million tonnes of carbon dioxide.

### The Order

The Electricity and Gas (Carbon Emissions Reduction) Order 2008 Statutory Instrument number 188.

### Priority Group

Defined in the CERT Order as the group of domestic energy users where each member fulfils one of the following criteria:

(a) is in receipt of at least one of the following 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; a disablement pension where it includes constant attendance allowance and state pension credit.

(b) is in receipt of at least one of the following credits: child tax credit and working tax credit, and has a relevant income of less than £15,592.

(c) is at least 70 years old.

### SHP

Social Housing Provider, a Local Authority or a Registered Social Landlord.

### SSE

Scottish and Southern Energy

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### Supplier activity

Energy efficiency work undertaken by suppliers to meet the energy efficiency targets.

## Appendix 4 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

- Does the report adequately reflect your views? If not, why not?
- Does the report offer a clear explanation as to why not all the views offered had been taken forward?
- Did the report offer a clear explanation and justification for the decision? If not, how could this information have been better presented?
- Do you have any comments about the overall tone and content of the report?
- Was the report easy to read and understand, could it have been better written?
- Please add any further comments?

1.2. Please send your comments to:

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