



Eaga response to Ofgem consultation:

***Project Discovery: Options for
delivering secure and
sustainable energy supplies***

Eaga – Background

Eaga welcomes the opportunity to respond to Ofgem's consultation on *Project Discovery: Options for delivering secure and sustainable energy supplies*.

In order to put our comments into context, it may be helpful to briefly outline our role in the provision of services across the UK and Ireland.

Eaga is the largest provider of residential energy efficiency solutions in the UK; we are a co-owned business working for clients that include clients many Scottish local authorities, DECC and the Welsh Assembly Government. We manage the delivery of the Warm Front Scheme and work in partnership with energy suppliers in delivering their CERT commitments to vulnerable households. We have also worked closely with Suppliers and Local Authorities in managing the delivery of energy efficiency programmes to low income and disadvantaged households throughout the UK for the past two decades.

We are also one of the largest domestic renewable energy companies in the UK. This includes solar PV and solar thermal systems, biomass and also low carbon solutions such as heat pumps. Our clients range from housebuilders to private individuals and social-funded programmes for vulnerable households.

For further information on Eaga and our work across all sectors please visit www.eaga.com.

Below are Eaga's responses to questions posed by the consultation.

Question 1: Do you agree with our assessment of the current arrangements?

Eaga agrees, and particularly notes the need to provide greater certainty in the area of renewable energy generation (such as by taking steps to make a price of carbon clearer) to encourage sufficient investment to enable a move towards green energy.

We also appreciate the concern that the scale of investment required may lead to greater consolidation of the energy market (which is already a concern) and impact on competition and therefore prices for consumers.

Question 2: Are there other aspects of the current arrangements which could have a negative impact on secure and sustainable energy supplies, or costs to customers?

Eaga agrees that costs to consumers are inevitably going to rise across the period and is concerned that insufficient focus is placed on the alleviation of these pressures on the fuel poor, who will remain least likely to benefit from changes in energy production.

Question 3: Do you agree that the five issues we have highlighted are the most important?

Eaga agrees. We would also note that all options will require major levels of investment by both industry and Government. Given the expectation that these costs will impact on consumers' energy bills, we believe it is vital that the need for prompt action does not override the need to ensure this investment is made in the most productive and preferable areas to maximise benefits to the energy supply and to energy users.

Question 4: Do you have any comments on our description of what might happen if no changes are made to the current arrangements?

Eaga remains confident that renewable electricity provision can and should reach the 2020 targets should innovative delivery be supported by the industry and Government.

We are extremely concerned at the potential for greater seasonal energy price differentials and the impact this would have on those in fuel poverty or simply living in energy inefficient homes.

In terms of smart metering, we have reservations that their roll-out will achieve the predicted change in energy consumption even if the 2020

target is met. If behavioural change is not as wide-ranging or long-lasting as hoped for the changes will be lessened greatly. Additionally, the potential for a 'rebound effect' of lessened energy use in some areas combined with greater use in others needs to be considered. If these are compounded by a lack of pro-active supporting behaviours (e.g. on tariffs) from energy suppliers the benefits of their introduction will be considerably less than hoped for.

Question 5: Do you believe that our policy packages cover a sufficient range of possible policy measures?

Eaga agrees.

Question 6: Do you have suggestions for variants to these policy packages?

Eaga would welcome consideration of the demand side of energy, in addition to the supply side; this would allow the consideration of the vital area of energy efficiency.

Question 7: What other policy measures do you believe should be considered, and why?

In addition to ensuring a secure and sustainable energy mix, focus should be placed on ensuring affordability of energy for consumers and would echo Consumer Focus' recommendations that steps be taken to ensure the costs of investment be distributed more fairly between consumers, shareholders, and Government (taxpayers)¹. The impact of each proposal should be considered in terms of their potential impact on consumers.

Question 8: Do you agree with the assessment criteria that we have used to evaluate the policy packages?

Eaga agrees.

Question 9: Do you have any comments on our initial assessment of each of the packages?

Eaga has no views.

Question 10: Do you agree with our summary of the key benefits and key risks of each policy package?

¹ <http://www.consumerfocus.org.uk/assets/1/files/2009/06/Consumer-Focus-response-to-Project-Discovery.pdf>

Eaga agrees, but would note that the potential deployment of renewable technology posited by the packages remains ambitious and would require considerable Government intervention to ensure delivery to targets.

Question 11: Do you have a view on which package is preferable, or alternative policy measures or packages that you would advocate? We are particularly interested any analysis you may have to support your views.

We find Package C, Enhanced Obligations and Renewables Tenders, the most convincing proposal in terms of stimulating a move to renewable generation, and agree that it would be likely to reduce the impact of this move on consumers' energy costs. Additionally, increasing confidence in the growth of renewables would serve to speed up this growth. We believe that the prioritisation of renewable electricity production must be a central tenet of any programme to ensure their maximal contribution to the energy system².

Question 12: Do you agree with our assessment of the timing for important investment decisions?

Eaga agrees.

Question 13: Do you believe that early actions should be considered?

Eaga recognises that to achieve the required changes to the structure of the energy market and supplies, and to meet Government's ambitious targets for the growth of renewable energy generation, will require early actions. We would welcome the acceleration of normal arrangements as generating impetus for the necessary changes. However, we would echo the concerns of the Energy and Climate Change Committee:

Although we know with some confidence how the electricity mix will evolve in the run up to 2020, there is much less certainty over what a completely decarbonised energy system might look like in the long run. The Government's vision for the future of our electricity networks must take account of the range of possible scenarios for the evolution of the energy mix, ensuring it does not lock Britain into a particular outcome at an early stage.³

² Climate Change Committee: *Meeting Carbon Budgets – the need for a step change*, October 2009, pp 134-7

³ Energy & Climate Change Committee: *The future of Britain's electricity networks*; 2nd Report of Session 2009-10, Vol 1

Question 14: Do you think that the issues are such that policy measures should be considered as a package or should they be considered on a case by case basis?

The issues considered cannot be effectively responded to independently, and therefore require consideration as part of a wider package. This, however, should not be a reason to find early answers.