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Ofgem's Report on the Community Energy Saving Programme (CESP) 2009 – 2012, to 31 December 2010

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Target Audience: DECC, energy generators and suppliers, the energy efficiency industry, community groups, fuel poverty groups and any other interested parties

Overview:

The CESP requires gas and electricity suppliers and electricity generators to deliver energy saving measures to domestic consumers in specified low income areas of Great Britain. Ofgem has a legal requirement to report annually to the Secretary of State for Energy and Climate Change on the CESP programme.

This document details progress on the Community Energy Saving Programme 2009-2012 (CESP) at 31 December 2010.

At 31 December 2010 a total of 142 schemes had been submitted to Ofgem for which the estimated CO_2 savings are 7.1 million (lifetime) tonnes CO_2. This represents 37% of the overall CESP target.

The majority of the schemes have been submitted by energy supply licence holders.

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Context

The Community Energy Saving Programme 2009-2012 (CESP) is a policy instrument designed to improve domestic energy efficiency standards across Great Britain in given geographical areas. The CESP obligation period runs from 1 October 2009 until 31 December 2012. It requires certain gas and electricity suppliers and electricity generators to meet a carbon emissions reduction target. The Department for Energy and Climate Change (DECC) is responsible for setting the overall CESP target and the policy framework. Ofgem E-Serve is responsible for administering the programme.

The CESP requires that energy saving actions are delivered in geographical areas selected using the Income Domain of the Indices of Multiple Deprivation (IMD) in England, Scotland and Wales. In England the lowest 10% of areas ranked in IMD qualify and in Scotland and Wales the lowest 15% qualify. The CESP therefore contributes towards alleviating fuel poverty as well as mitigating climate change.

Ofgem is required annually to report to the Secretary of State for Energy and Climate Change upon progress of the programme. This report fulfils that requirement and details operation of the scheme to 31 December 2010.

Associated Documents

- The Electricity and Gas (Community Energy Saving Programme) Order 2009 http://www.legislation.gov.uk/uksi/2009/1905/resources/made
- Explanatory Memorandum to the electricity and Gas (Community Energy Saving Programme) Order 2009 http://www.legislation.gov.uk/uksi/2009/1905/memorandum/contents
- Community Energy Saving Programme Generator and Supplier Guidance http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=15&refer=Sustainability/Environment/EnergyEff/cesp
- Letter to Secretary of State reporting on the first quarter of Community Energy Saving Programme http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=23&refer=Sustainability/Environment/EnergyEff/cesp
- Community Energy Saving Programme (CESP). Communities: Areas of Low Income http://www.official-documents.gov.uk/document/other/9780108508417/9780108508417.pdf

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Summary

The CESP requires certain gas and electricity suppliers and certain electricity generators[1] to meet a target for reducing carbon emissions in domestic properties in GB. This report fulfils Ofgem's reporting duties to the Secretary of State for Energy and Climate Change under the Electricity and Gas (Community Energy Saving Programme) Order 2009. The report details progress towards the overall CESP target, towards combined supplier and generator targets, and the performance of each obligated party.

During the first full year, the programme has proved, in some respects, to be more complex and difficult than the Carbon Emissions Reduction Target (CERT) for obligated parties to deliver and for Ofgem to administer. So while the energy companies have submitted a large number of notifications, only a few of the schemes submitted to Ofgem had achieved full approval at 31 December 2010. Consequently this report covers not only reported activity but also scheme composition and expected outcomes.

Overall CESP Progress, at 31 December 2010

- A total of 142 schemes had been submitted to Ofgem. Of these, 131 had been submitted from April 2010, an average of over 14 per month.
- 7 schemes from 2 suppliers had received formal approval (at 27 April 2011 this figure had risen to 30 schemes approved).
- Estimated CO_2 savings from all proposed schemes amount to 7.1 $MtCO_2$, almost 37% of the overall target.
- The majority of schemes have been submitted by supply licence holders.
- Trading of obligations has taken place and more is anticipated as obligated parties seek to optimise delivery of schemes and achievement of bonuses.

Proposed Measures

- Each scheme submitted offers one or more qualifying actions (measures).
- Across the 142 schemes submitted a total of 704 measure installations (e.g. solid wall insulation, glazing) have been proposed, across a number of LSOA areas.
- The majority of schemes (92%) include insulation measures which constitute 53% of all proposed measures.
- Heating measures are included in 77% of schemes and comprise 35% of all proposed measures.
- The most prevalent measures are external solid wall insulation, offered in 81% of schemes, heating controls (65%) and boiler replacement (62%).

[1] Obligated suppliers and generators are listed in Appendix 2.

Regional Coverage

- Schemes have been submitted for all GB regions.
- Total schemes and estimated CO_2 savings in the North West significantly exceed those in any other area.
- Of the schemes submitted to date, the estimated CO_2 savings in London and Scotland are notably lower than might be expected from the number of eligible LSOAs (Lower Super Output Areas) in each region.

Issues

- The programme commenced very slowly with just 11 schemes being submitted to Ofgem between the start date of 1 October 2009 and 31 March 2010. Since then the rate of scheme submission has risen appreciably, averaging almost 18 per month in the six months to 31 December 2010, as obligated parties have learned to tackle the complexities of the programme and managed to make the appropriate partnerships.
- A number of technical and administrative issues have arisen. Where necessary, Ofgem has worked with industry and Government to address them. These issues include:
    - Complexity of the programme has meant that there has been a significant time span between original scheme submission and final scheme approval.
    - Score adjustments to eligible measures and the applicability of bonuses have made the process of evaluating emissions reductions difficult for obligated parties.
    - Special circumstances, such as savings attributable to PV on blocks of flats, or the treatment of narrow cavities, have arisen and have required Ofgem to establish means of resolution, through working with obligated parties.
    - There has been an overlap between some of the measures promoted under the CERT and those under the CESP and putting in place the procedures to prevent double counting whilst at the same time working within existing contractual relationships has taken time.
    - In some cases obligated parties have had difficulty in obtaining the appropriate confirmation from local authorities that proper consultation has taken place.
    - The designation of specific eligible LSOAs can lead to boundary problems where seemingly identical properties may receive markedly different treatment because they are located in different LSOAs.
    - The eligible LSOAs have been found to have high proportions of hard to treat properties, which often require bespoke solutions.
    - Submitted schemes are smaller than originally anticipated. If this trend continues it is likely that some 400 schemes will be required rather than approximately 100 as estimated when the CESP was being developed.

Forward Look

- Ofgem will continue to work with obligated parties to ensure that further schemes, compliant with the requirements of CESP, are developed and delivered.
- Ofgem will continue to work on compliance, including resolving any further technical issues that may arise.

To ensure that the outcomes of the scheme can be properly monitored it will be important for the obligated parties to update their submissions once any relevant technical issues have been resolved.

Since 1 January 2011 significant progress has been achieved working with obligated parties, industry representatives, and DECC in resolving a number of technical challenges which are highlighted in this report. This has led to a rapid increase in the rate of scheme approvals, a trend which is expected to continue.

1. Introduction

1.1. The Electricity and Gas (Community Energy Saving Programme) Order 2009 ("the Order") was made on 20 July 2009 and came into force on 1 September 2009.

1.2. The Order sets an obligation on certain electricity and gas suppliers and electricity generators to reduce carbon emissions by promoting a range of energy efficiency measures (qualifying actions) to domestic energy users. Appendix 1 sets out these measures.

1.3. The overall target for the Community Energy Saving Programme (CESP) is set at 19.25 million tonnes of lifetime carbon dioxide ($MtCO_2$). Of this, half (9.625 $MtCO_2$) is imposed upon obligated generators and the other half upon obligated suppliers. Obligated suppliers and generators must meet their obligations between 1 October 2009 and 31 December 2012. The parties obligated under the Order are set out in Appendix 2. Although obligations are placed upon individual licence holders, for clarity and ease of reporting the analysis presented here is at aggregated group level. These groups are also set out in Appendix 2.

1.4. The CESP requires that energy saving actions are delivered in geographical areas selected using the Income Domain of the Indices of Multiple Deprivation (IMD) in England, Scotland and Wales. In England the lowest 10% of areas ranked in IMD qualify and in Scotland and Wales the lowest 15% qualify.

1.5. Ofgem is required annually to provide to the Secretary of State a report setting out the progress made by each generator and supplier towards complying with their carbon emissions reduction obligations, towards achievement of the combined supplier and generator targets and towards achievement of the overall CESP target. This document fulfils that requirement with respect to the year ending 31 December 2010.

2. Overall Progress Towards CESP Obligation

Chapter Summary

This chapter outlines progress towards the overall CESP target. The information given in the chapter is derived from details of all schemes that had been submitted to Ofgem by 31 December 2010. Statistics relating to scheme numbers, scheme size, measures included, locality and estimated CO_2 savings are presented.

2.1. In its report on the first quarter of CESP (i.e. to 31 December 2009) Ofgem noted that the programme had commenced very slowly.

2.2. In the year to 31 December 2010 a significant number of scheme proposals have been submitted although at 31 December 2010 only 7 schemes, from 2 suppliers, had been approved (at 27 April 2011 this figure had risen to 30). There are a number of reasons for the low approval rate, mainly consequent upon the complexity of the programme. These are discussed in chapter 5. This report provides an analysis of all proposed schemes, including those that have been approved.

Overall Proposals

2.3. In total 142 scheme proposals have been submitted. Of these, 132 offer more than one qualifying action, with the remainder being for a single measure only. Across all schemes a total of 704 measures have been proposed, an average of almost 5 measures per scheme, with the highest number of measures in any scheme being 12.

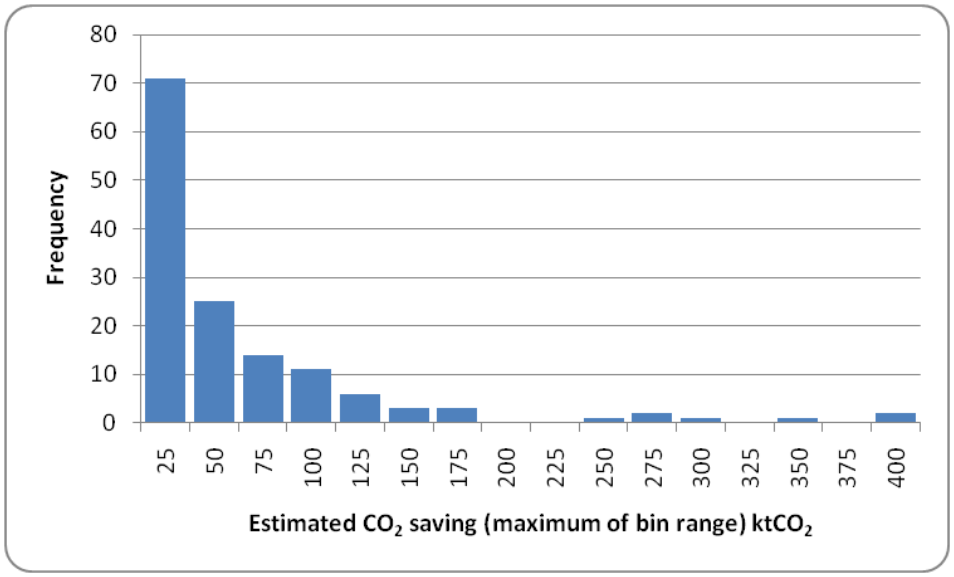
2.4. The majority of the schemes include insulation (130, 92%) and heating (110, 77%) measures. There are 37 offering microgeneration measures and 15 including district heating. Only 4 schemes incorporate a home energy advice package. The most prevalent measure is external solid wall insulation which features in 81% of schemes.

2.5. The estimated total CO_2 savings from these schemes, after allowing for uplifts, bonuses and other adjustments is 7.1 $MtCO_2$, some 36.9% of the total CESP target. (Note - estimated savings were unavailable for 3 of the proposed schemes, however these are only expected to make a marginal difference to the overall figure). Final carbon scores for schemes cannot, however, be fully ascertained until they are completed and banked with Ofgem.

2.6. Estimated CO_2 savings from individual schemes vary markedly, depending upon the number of eligible LSOAs covered and the measures offered, ranging from a minimum of 0.65 to a maximum of 400 $ktCO_2$. The histogram in figure 2.1 shows that more than half of the schemes have estimated savings in the range 0-25 $ktCO_2$, and 86% of schemes fall in the range 0-100 $ktCO_2$. If this trend in size of schemes

were to continue then the number of schemes required to reach the target may be as many as 400.

Figure 2.1. Distribution of scheme estimated CO_2 savings.



2.7. All proposed schemes are in partnership with a social housing provider or local authority with 51 (36%) also being promoted to private households.

2.8. The relatively early and unapproved nature of many of the schemes precludes analysis on the basis of achieved CO_2 savings. Consequently much of the discussion below is based on numbers of schemes and measures being offered through those schemes. While these parameters do not correlate directly with CO_2 savings they do provide intelligence relating to the relative intensities of activity of obligated parties, to regional variations and to those measures most favoured by obligated parties.

Supplier Proposals

2.9. Suppliers have submitted a total of 127 schemes, including all 10 single measure schemes. Insulation measures are included in 91% of these schemes and heating measures in 75%. The four home energy advice packages are included in supplier schemes.

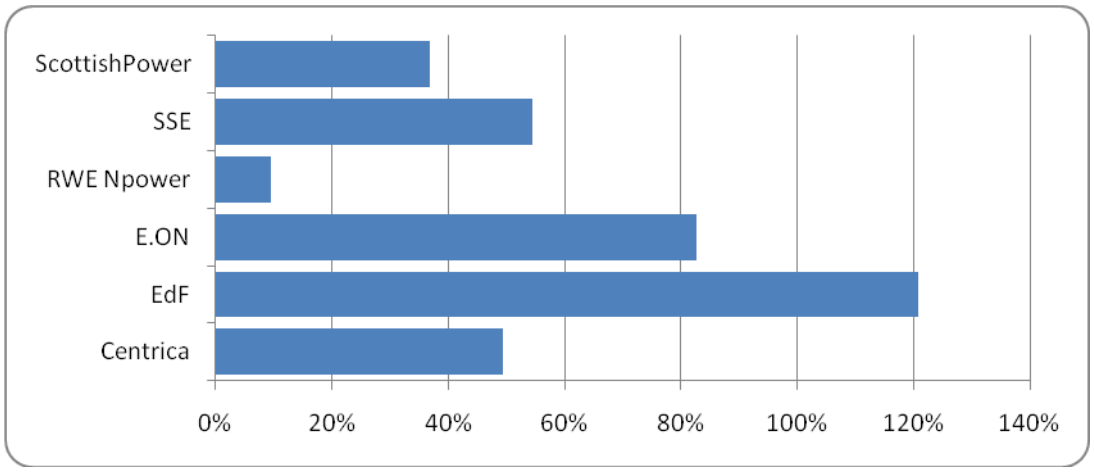
2.10. Total estimated savings from supplier schemes is 6.75 $MtCO_2$ which represents 35% of the overall target.

2.11. As discussed in more detail below, trading of obligations has taken place, including trading between supply and generation licence holders. As a consequence

the current overall suppliers' target is 12.8 $MtCO_2$ (based on revised obligations from 14 March 2011 amended by allowed trades). The estimated savings thus represent 53% of this target. At 31 December 2010 the overall suppliers' target was slightly lower at 12.5 $MtCO_2$.

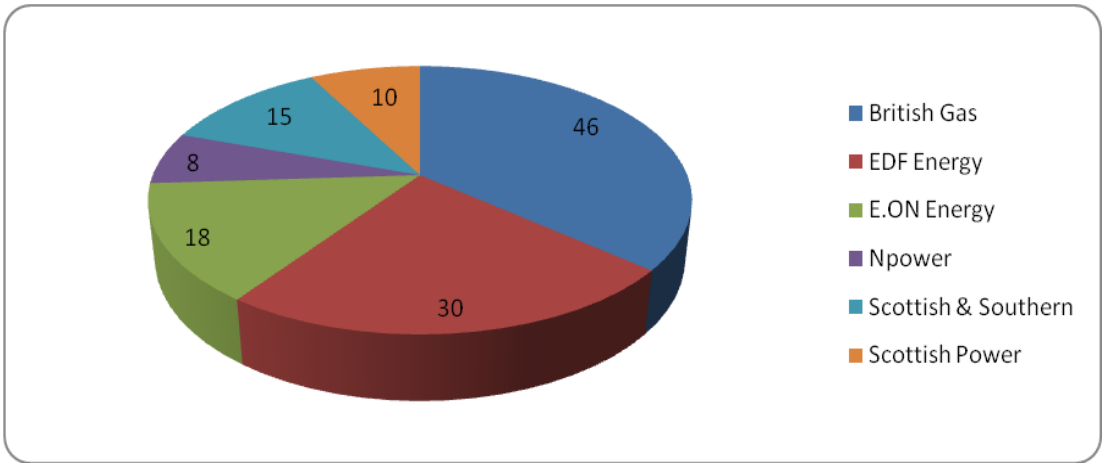
2.12. Estimated savings as a percentage of aggregated obligations for each supplier group are shown in figure 2.2.

Figure 2.2. Estimated CO_2 Savings as a percentage of amended aggregated obligations



2.13. The level of proposed activity varies markedly between suppliers as demonstrated by the number of schemes proposed by each supplier group shown in Figure 2.3.

Figure 2.3. Schemes proposed by suppliers

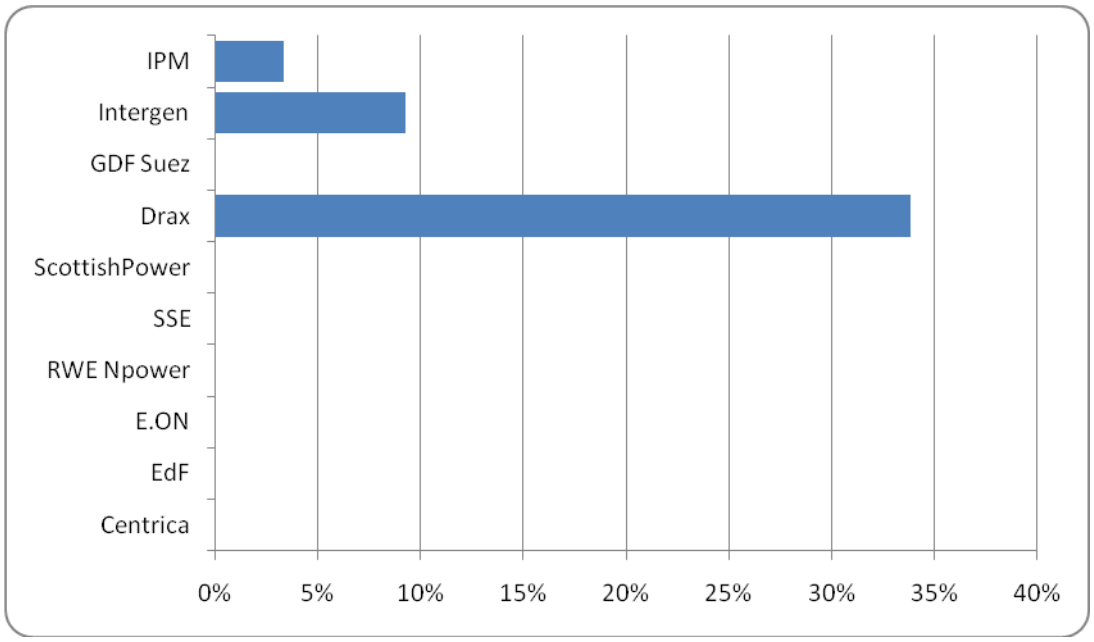


Generator Proposals

2.14. All 15 generator schemes include insulation and heating measures. As indicated above, no generator has offered a home energy advice package.

2.15. None of the vertically integrated generation companies associated with "the big six" energy suppliers (Centrica, EdF, E.ON, Npower, Scottish Power, SSE) has proposed schemes. It is, therefore, not surprising that the number of supplier schemes heavily outweighs the number of generator schemes.

Figure 2.4. Estimated CO_2 savings as a percentage of amended aggregated obligations.

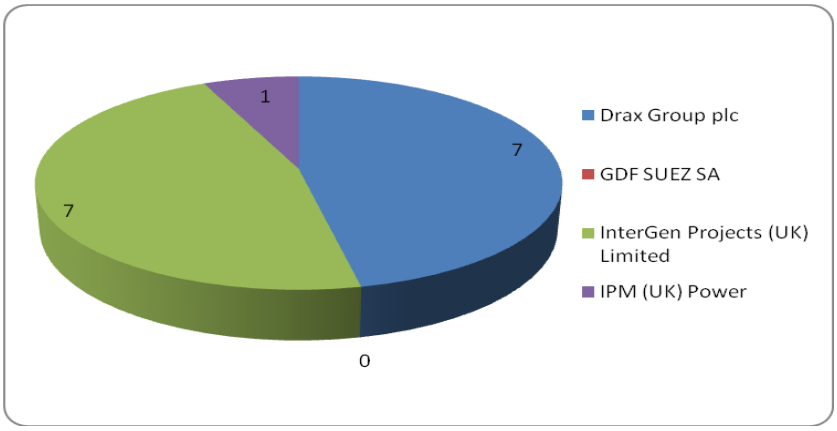


2.16. Total estimated savings in the generator sector amount to 0.36 $MtCO_2$, some 1.9% of the overall target (3.7% of the original generator target) and 6% of the total amended generator target of 6.45 $MtCO_2$ (which was just over 6 $MtCO_2$ at 31 December 2010).

2.17. At 31 December 2010, GDF Suez, had yet to submit a scheme to Ofgem although this situation has subsequently changed.

2.18. Between 14 March 2010 and 14 March 2011, dates on which Ofgem sets obligation targets, Eggborough Power Limited was divested by EDF Energy. Currently the Authority is considering representations from Eggborough Power Limited regarding its status within the CESP scheme.

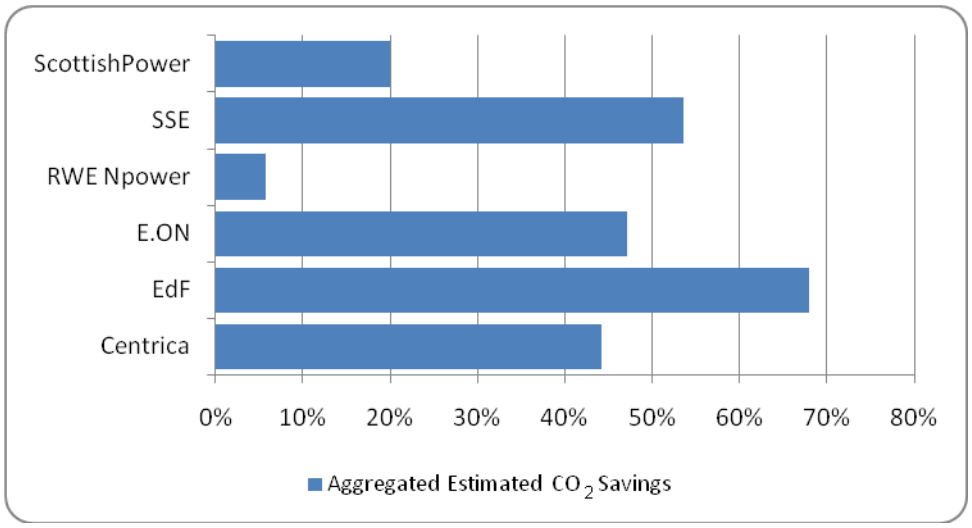
Figure 2.5. Generator schemes



Vertically Integrated Groups

2.19. As indicated above, the 6 vertically integrated groups have proposed all schemes to date through their supply licences. It is to be expected, therefore, that further intra-group trading will take place. A comparison of estimated savings against aggregated total group obligation (i.e. all supply and generator licence holders' obligations) is presented in Figure 2.6.

Figure 2.6. Estimated CO_2 savings for the 6 vertically integrated companies as a percentage of total aggregated obligations



Regional Analysis

2.20. Schemes have been proposed for all GB regions. The number of schemes and the expected CO_2 savings resulting from them are shown in figure 2.7, below. More detailed information is provided in table 2.1.

2.21. Total schemes and estimated CO_2 savings in the North West significantly exceed those in any other area, the latter being over 50% greater than for any other region.

2.22. Figure 2.8 contrasts the percentage of eligible LSOAs in each region with the current estimated CO_2 savings (as a percentage of the total).

Table 2.1. Regional breakdown of schemes, measures and CO_2 savings

Region	No. of CESP eligible LSOAs	%age LSOAs	No. of Schemes	Estimated CO_2 Savings Mt	No. of Measures
East Midlands	187	4%	9	0.74	38
East of England	114	3%	5	0.17	24
London	795	18%	6	0.18	32
North East	265	6%	14	0.87	71
North West	768	17%	30	1.49	134
Scotland	976	22%	13	0.94	66
South East	104	2%	3	0.07	16
South West	93	2%	4	0.16	16
Wales	284	6%	19	0.69	102
West Midlands	491	11%	22	0.92	99
Yorkshire & the Humber	431	10%	17	0.88	106

Figure 2.7. Scheme proposals and estimated CO_2 savings (Mt) in each region of Great Britain

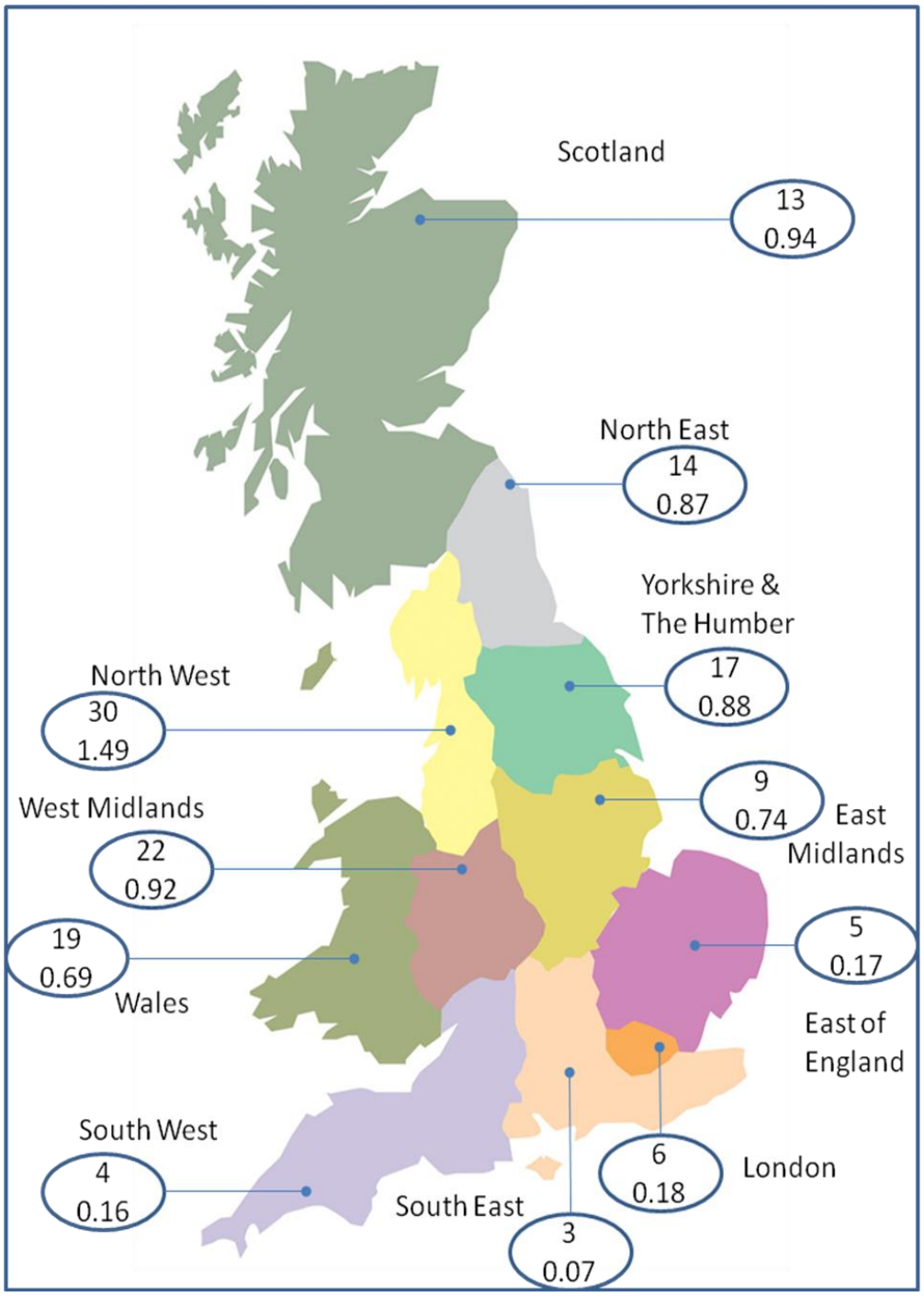
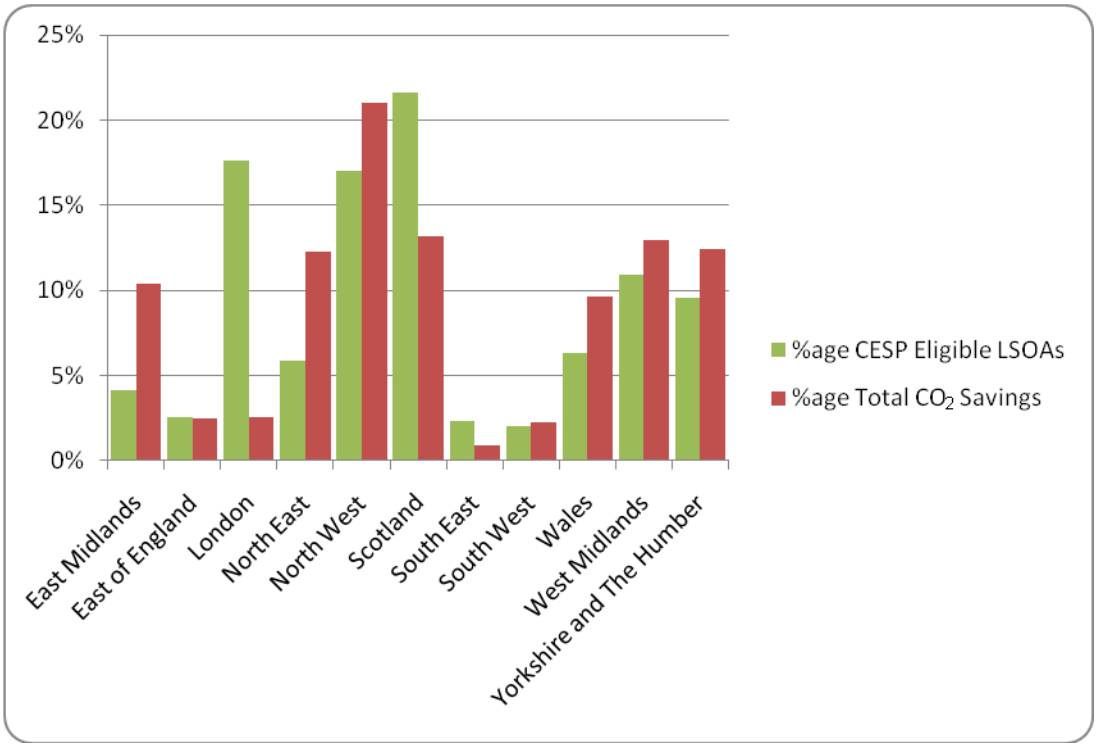


Figure 2.8. Percentage eligible LSOAs in each region and estimated proportional CO_2 savings



2.23. It may be seen that the high scheme count and estimated CO_2 savings in the North West mirror the proportion of eligible LSOAs in that region. Conversely, in Scotland, and particularly in London, there is a significant mismatch between the eligible areas and CO_2 savings, with the latter being much lower than might be anticipated. The reverse is the case in the East Midlands and the North East where the proportion of CO_2 savings is over double the proportion of LSOAs.

2.24. The mix of measures in each region is shown in figures 2.9 to 2.14, below. With the obligation period not ending until 31 December 2012 and estimated CO_2 savings from current schemes representing less than 40% of the overall target, the differentials between regions could well change significantly.

Figure 2.9. Mix of measures in East Midlands and East of England

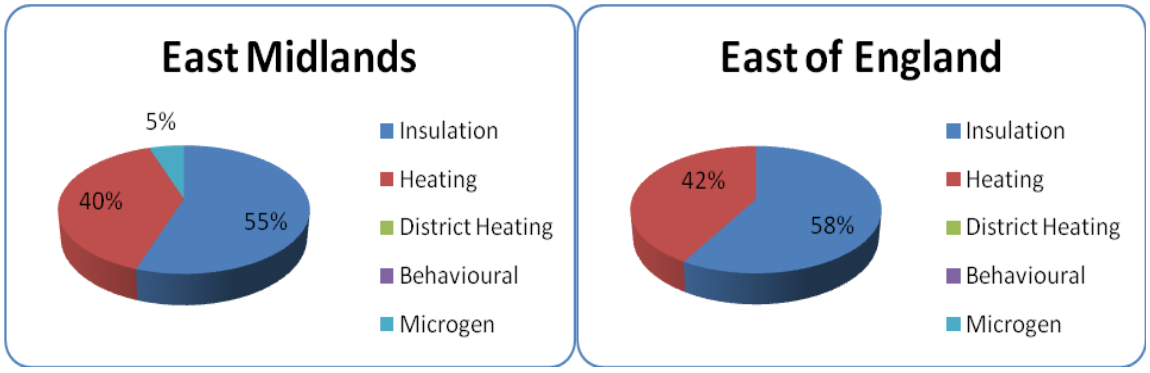


Figure 2.10. Mix of measures in London and North East

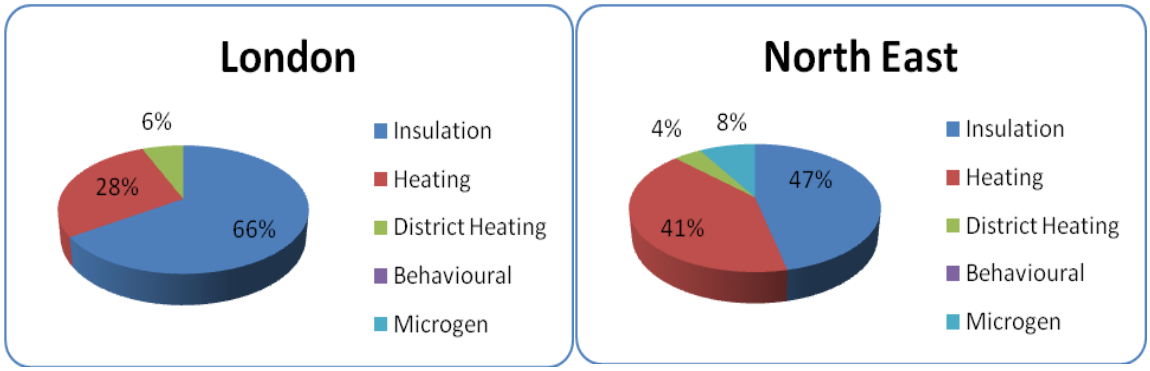


Figure 2.11. Mix of measures in North West and Scotland

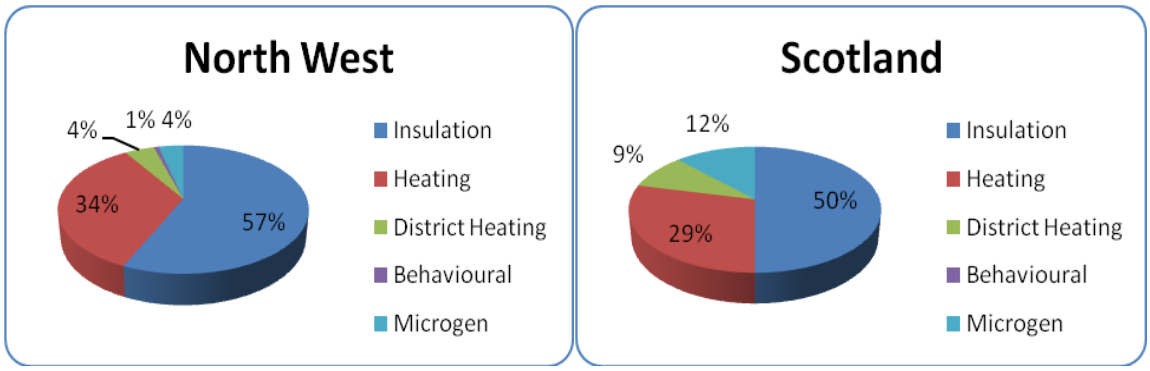


Figure 2.12. Mix of measures in South East and South West

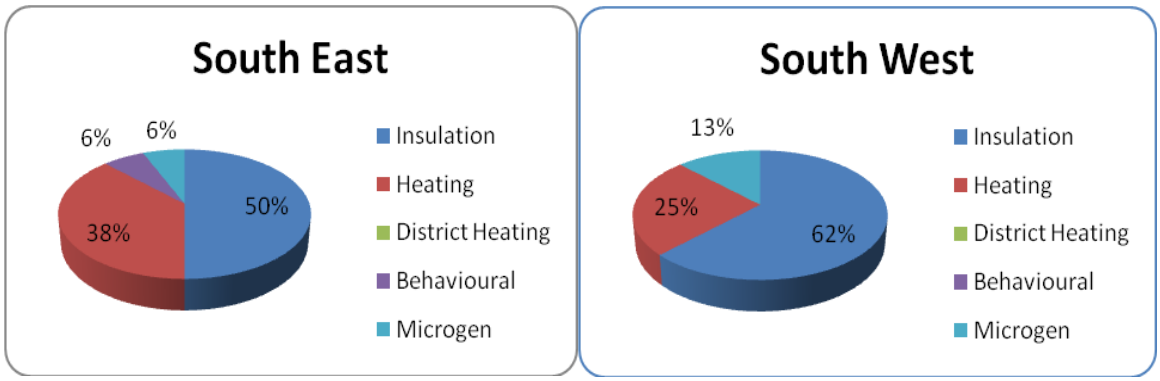


Figure 2.13. Mix of measures in Wales and West Midlands

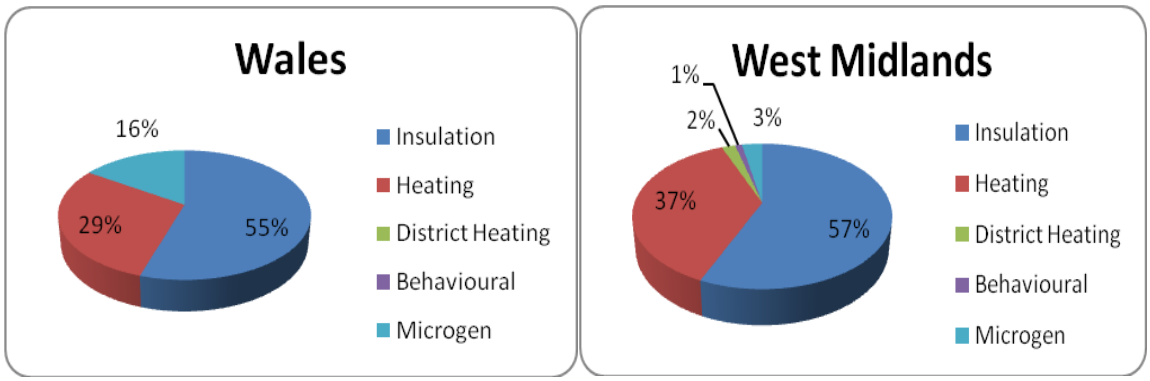
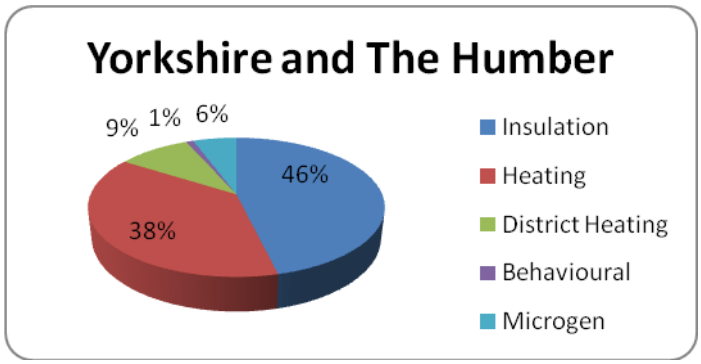


Figure 2.14. Mix of measures in Yorkshire and the Humber



Measures Analysis

2.25. Across all schemes a total of 704 measures have been offered. The split of these measures is illustrated in figure 2.15 and the percentage of schemes containing each measure is given in figure 2.16.

2.26. Measures are categorised into 5 main types: insulation, heating, behavioural (energy advice packages), district heating and microgeneration (See appendix 1). Relative numbers of each type are illustrated in figure 2.17.

Figure 2.15. Numbers of measures proposed in all schemes

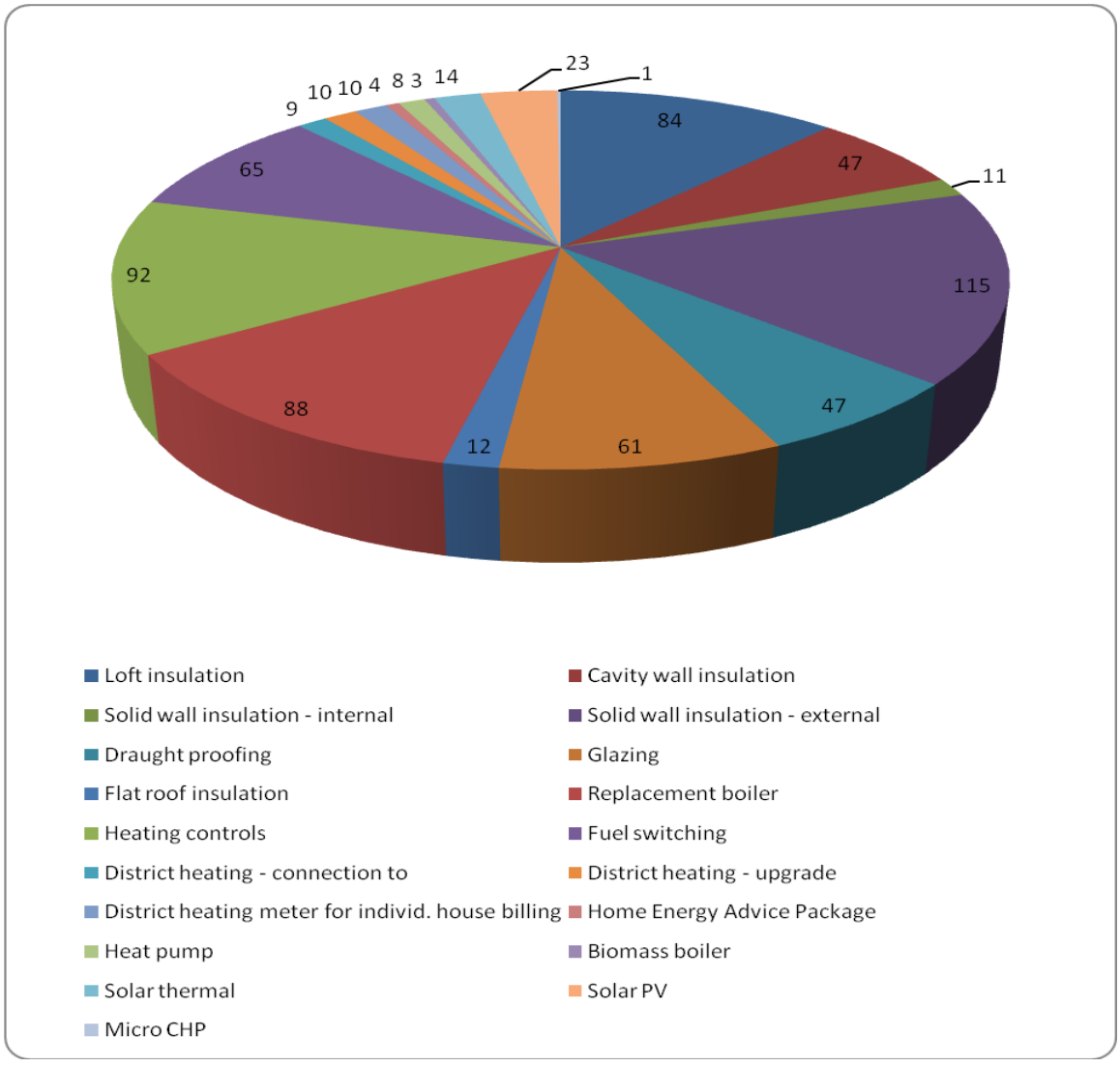


Figure 2.16. Percentage of schemes in which each measure features

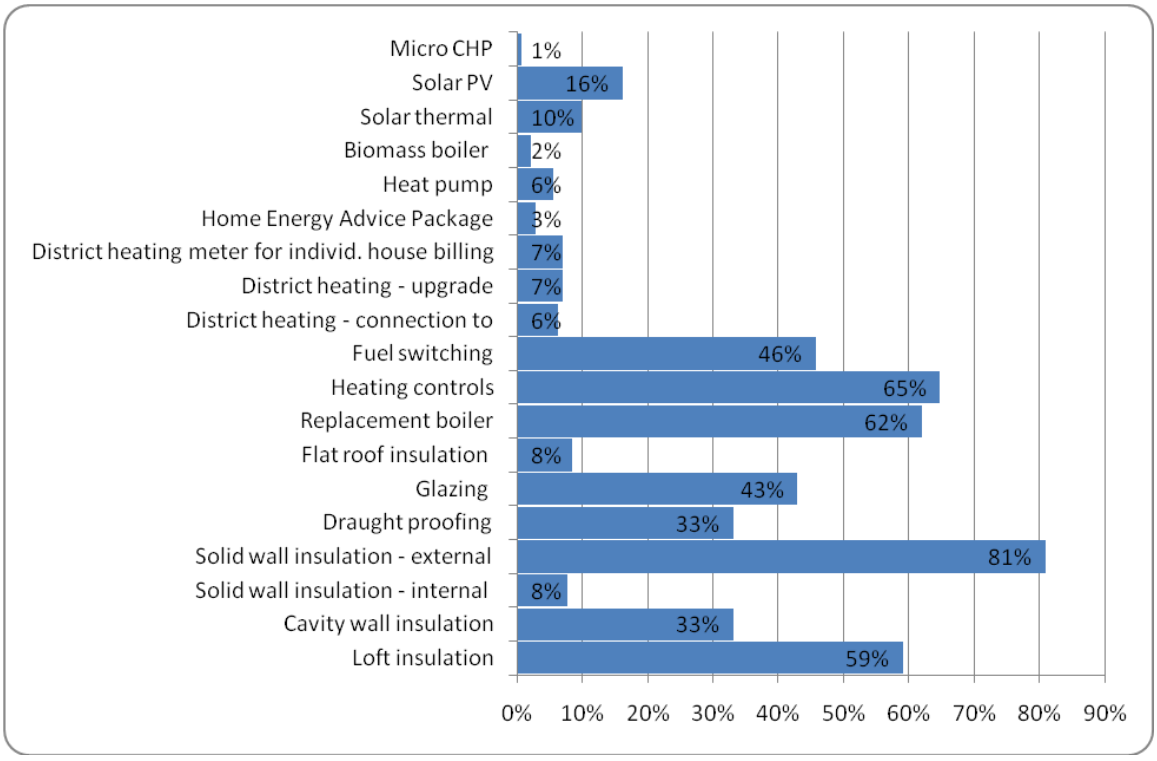
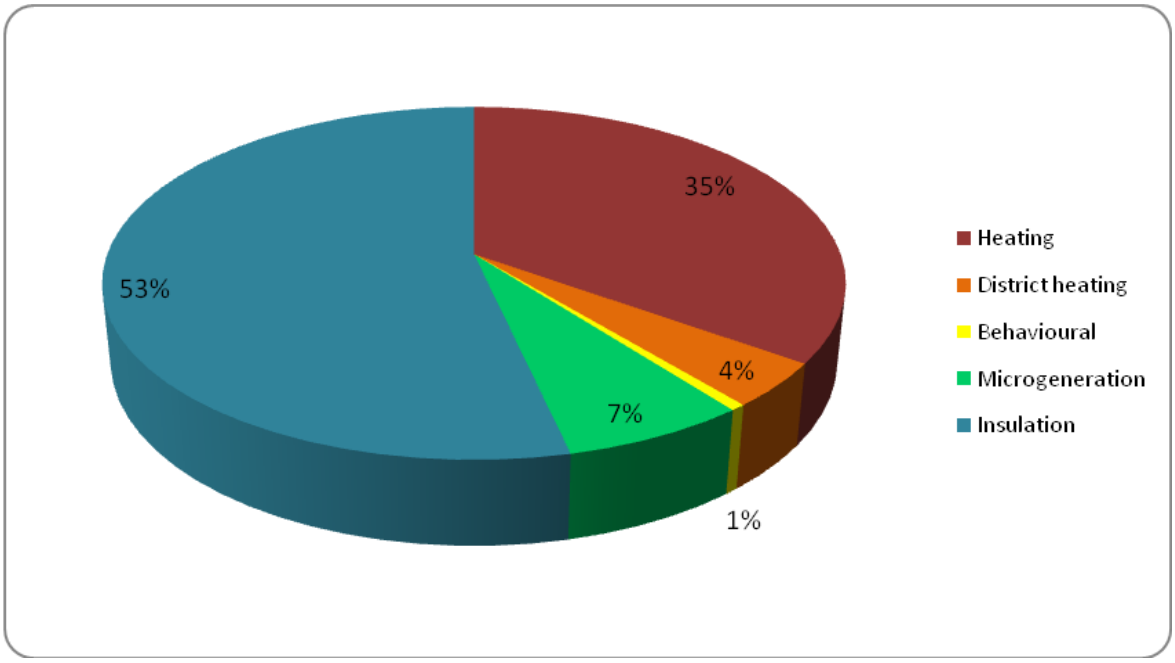


Figure 2.17. Relative numbers of measures submitted



2.27. Altogether insulation and heating measures account for 88% of the total. The breakdown of the 377 insulation measures is shown in figure 2.18. The average number of insulation measures per scheme is 2.7.

2.28. External solid wall insulation is the most prevalent of the insulation measures, being offered in 81% of schemes. This suggests that the 200% measure adjustment plus 50% whole house bonus are driving the promotions of this measure. However, it should be noted that internal solid wall insulation, with similar incentives, features in just 8% of schemes. The disruptive nature of this measure could be a driver for this differential.

2.29. Despite minus 50% measure adjustments, loft insulation and cavity wall insulation are included in 59% and 33% of schemes, respectively. Glazing is the third most prevalent measure to be offered at 43% of schemes. No scheme offers under-floor insulation.

2.30. The 245 heating measures broken down into 3 types are presented in table 2.2. On average each scheme offers 1.7 heating measures.

2.31. Heating controls and boiler replacement have similar prevalence, being offered in 65% and 62% of schemes respectively.

Figure 2.18. Relative numbers of insulation measures

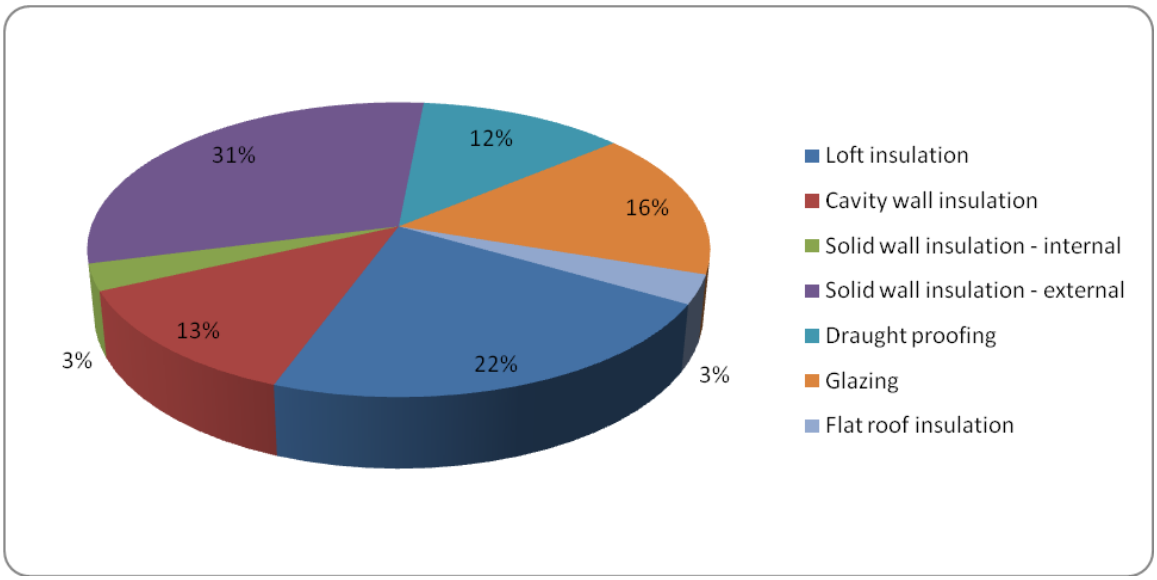


Table 2.2. Heating measures submitted

Heating Measure	Number
Replacement boiler	88
Heating controls	92
Fuel switching	65

2.32. Outwith insulation and heating measures the next most prevalent measure is solar PV, being offered in 16% of schemes.

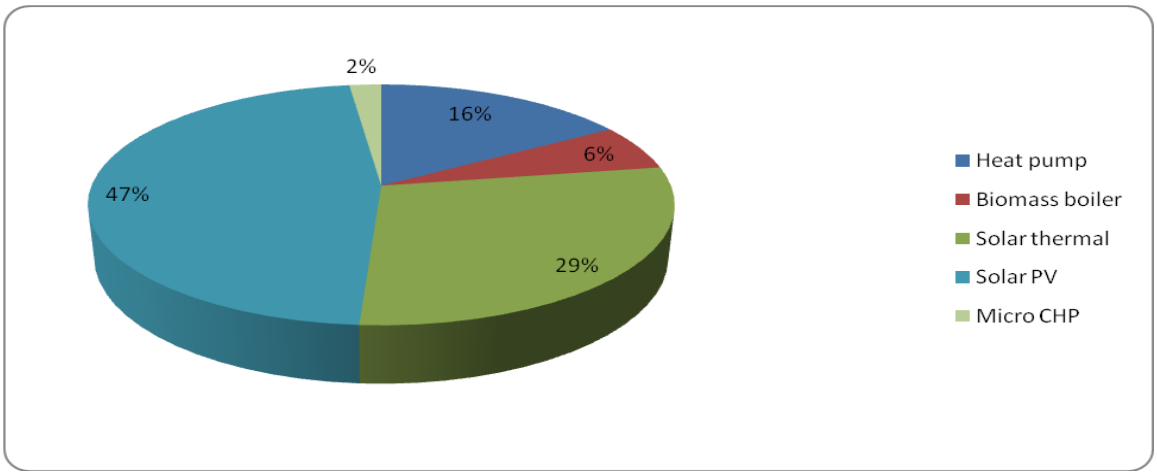
2.33. District heating schemes broken down into 3 types are given in table 2.3. In total 29 schemes have district heating measures.

Table 2.3. District heating measures submitted

District Heating Measure	Number
District heating - connection to	9
District heating - upgrade	10
District heating meter for individual house billing	10

2.34. Of the 9 types of allowable microgeneration measure only 5 have been included in schemes that have been submitted, as illustrated in figure 2.19. A total of 49 measures have been submitted in 37 schemes.

Figure 2.19. Relative numbers of microgeneration measures



Progress to Date & Dwellings Treated

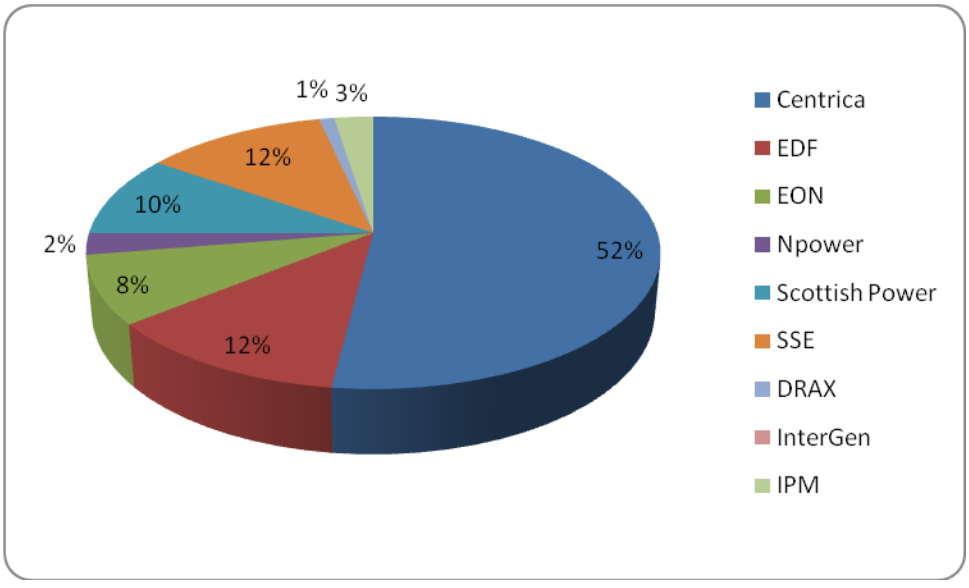
2.35. As noted in paragraph 2.2, only 7 schemes[2] had been approved by 31 December 2010. Total savings through measures installed under these schemes amount to 13 $ktCO_2$, all of which was achieved by the suppliers. Reporting against such a small dataset cannot provide an adequate picture of progress, therefore the analysis that follows covers data received for both approved and unapproved schemes.

2.36. Ofgem has not requested separate update data for some measures, e.g. glazing and boiler replacement. However, information is available for measures that, in aggregate, will lead to significant CO_2 savings. The analysis against measures below thus provides a good description of overall progress.

2.37. In total, Ofgem has received data (approved and unapproved schemes) on installations in 3995 dwellings. The split between obligated parties is illustrated in figure 2.20.

2.38. The reported measures that have been applied are illustrated in figure 2.21. Clearly the reported data are dominated by insulation measures which are further analysed in figure 2.22 showing that 75% of the reported measures are solid wall insulation.

Figure 2.20 Dwellings with installations from each obligated party



[2] Included in the analysis at paragraphs 4.3 and 4.5.

Figure 2.21 Reported measure types

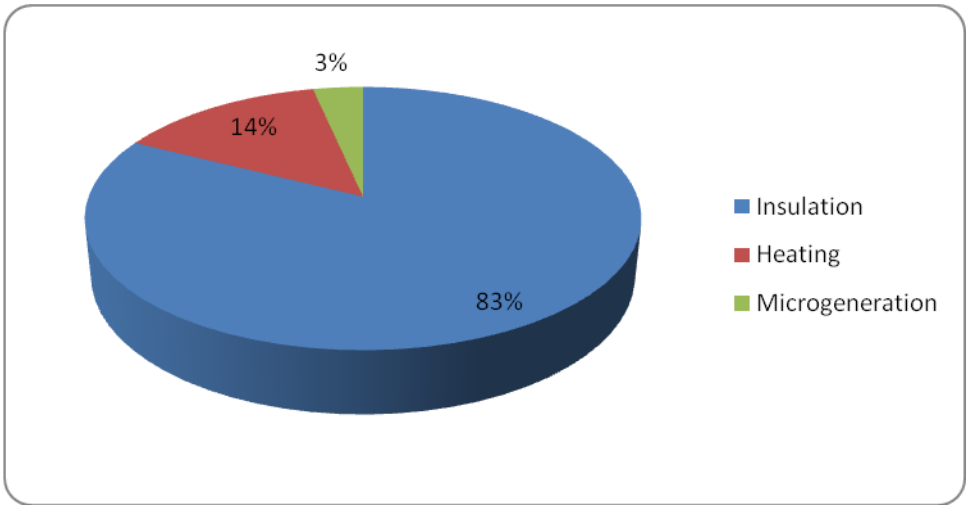
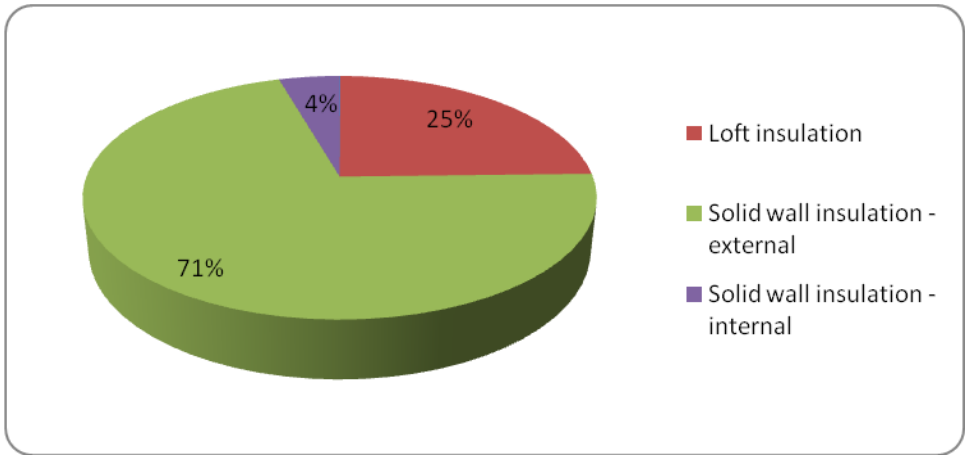


Figure 2.22. Reported insulation measures



Transfers and Trading

2.39. Under article 20(1) of the Order Ofgem may agree to the whole or part of an obligated party's target to be treated as having been achieved through action undertaken by another supplier or generator ("a transfer").

2.40. Similarly, under article 21(1) Ofgem may agree to the whole or part of a supplier's or a generator's carbon reduction obligation to be traded to another supplier or generator ("a trade").

2.41. In both cases, for the option to be exercised both parties must submit a written request to Ofgem. To date no request to transfer action has been received, however, a number of trades of obligation have taken place.

2.42. Trades have been both intra- and inter-group. Intra-group trades have the potential to optimise delivery of schemes and achievement of bonuses.

2.43. In total, trades have amounted to 4.26 $MtCO_2$ with the net effect of transferring obligations for 3.17 $MtCO_2$ saving from generators to suppliers. These figures were slightly lower as at 31 December 2010, at 4 $MtCO_2$ and just under 3 $MtCO_2$ respectively.

3. Each Generator's Progress

Chapter Summary

A brief outline of each generator group's progress is presented, detailing numbers of schemes and scheme content.

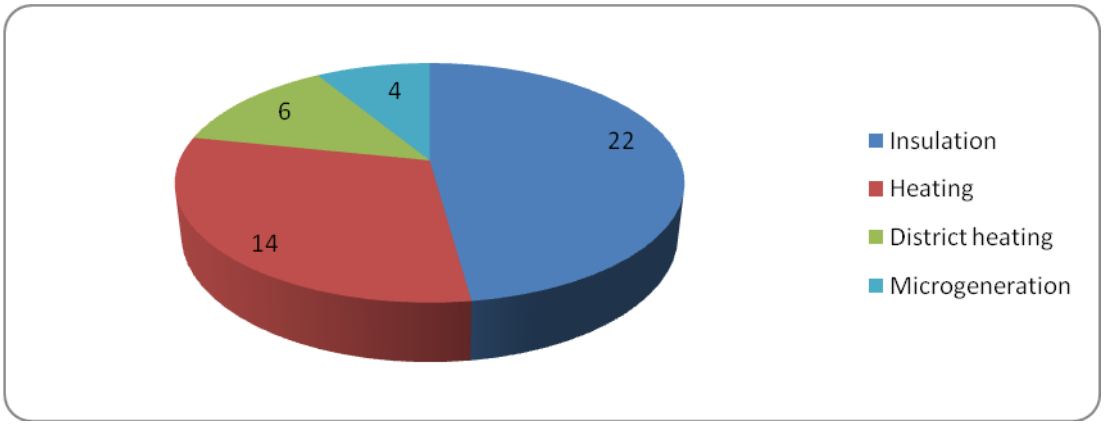
3.1. There are 10 generator groups obligated under CESP. However, 6 of these groups (Centrica, EDF Energy, E.ON, RWE Npower, SSE and ScottishPower) also encompass supply licence holders and, to 31 December 2010, have proposed schemes only via these licences. Consequently all progress by these groups is reported in Section 4.

3.2. Of the remaining 4 generators, 3 have proposed schemes, as detailed below.

Drax

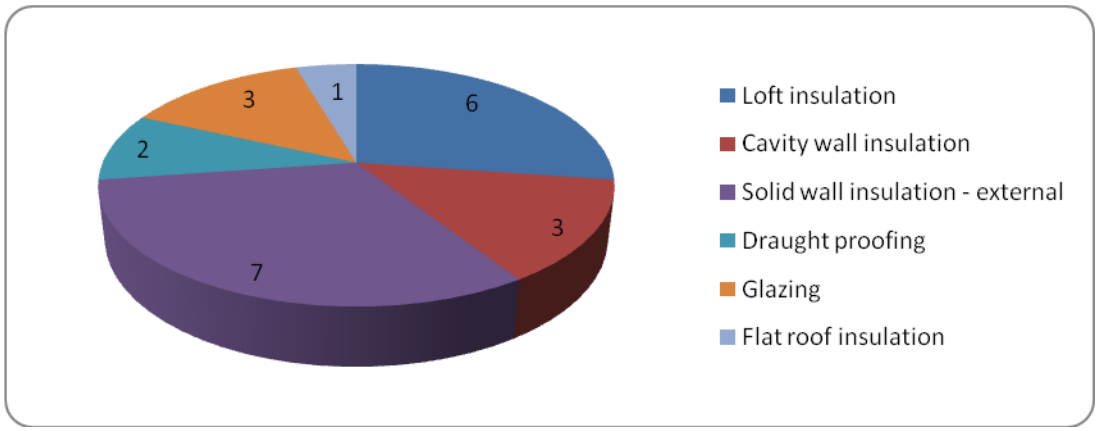
3.3. Drax Group has submitted 7 schemes, all of which offer insulation and heating measures, and which entail 46 measures in total.

Figure 3.1. Measures in Drax schemes



3.4. The make-up of the 22 insulation schemes is illustrated in Figure 3.2.

Figure 3.2. Drax insulation measures



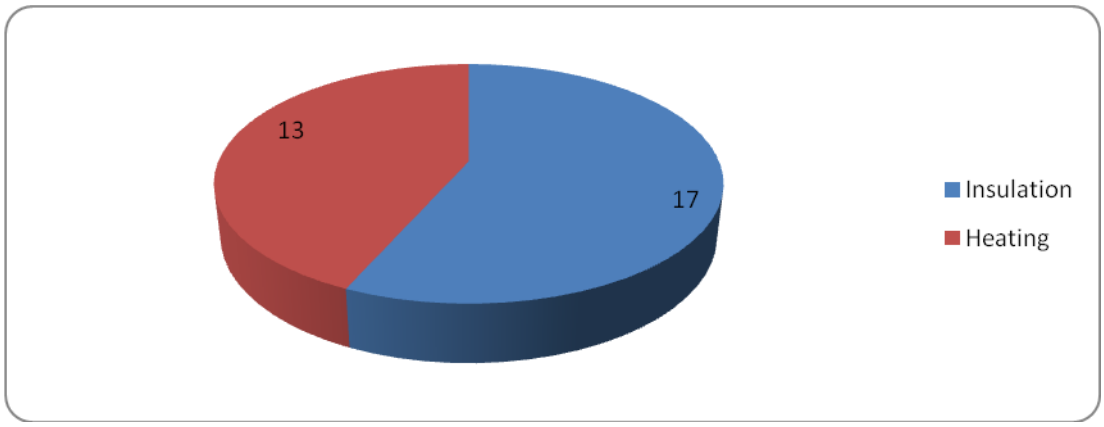
GDF Suez

3.5. At 31 December 2010 GDF Suez had not submitted any scheme to Ofgem, although a submission has been made since.

Intergen

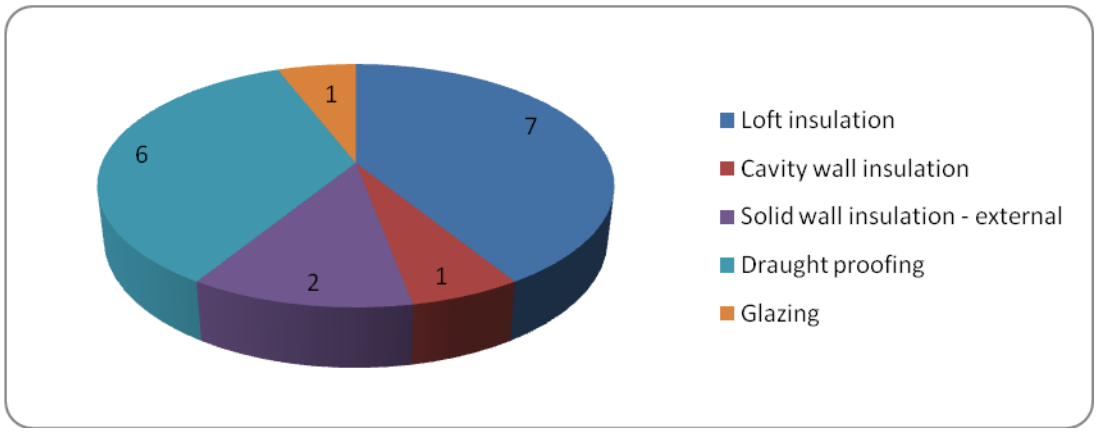
3.6. InterGen has submitted 7 schemes entailing 30 measures, all of which are either heating or insulation measures.

Figure 3.3. Measures in Intergen schemes



3.7. The make-up of the 17 insulation measures is illustrated in Figure 3.4.

Figure 3.4. InterGen insulation measures



IPM

3.8. IPM has submitted 1 scheme offering 5 insulation and 2 heating measures.

Vertically Integrated Generators

3.9. Each of the scheme proposals from Centrica, EDF, E.ON, Npower, Scottish & Southern, and Scottish Power has been submitted under a supply licence.

4. Each Supplier's Progress

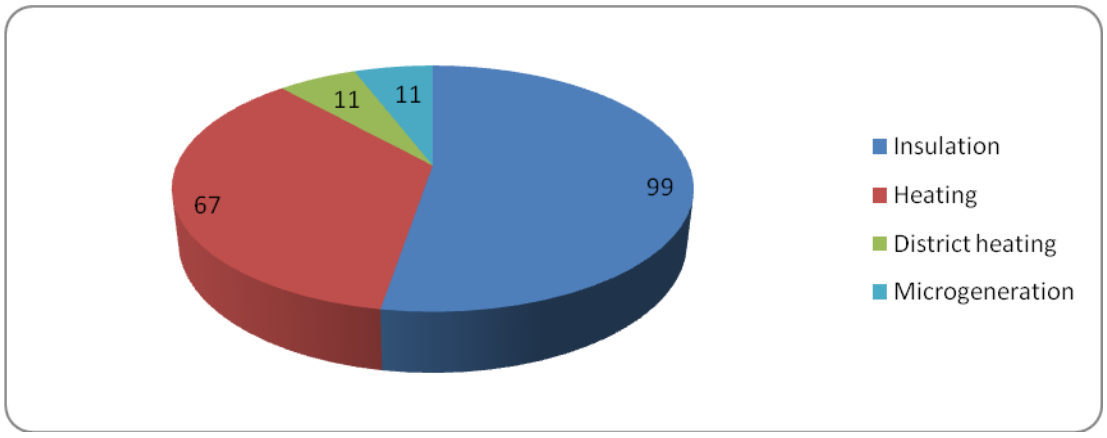
Chapter Summary

Each supplier group's progress towards its aggregated target is summarised in this chapter. Information is presented on numbers of schemes and scheme content (measures).

Centrica

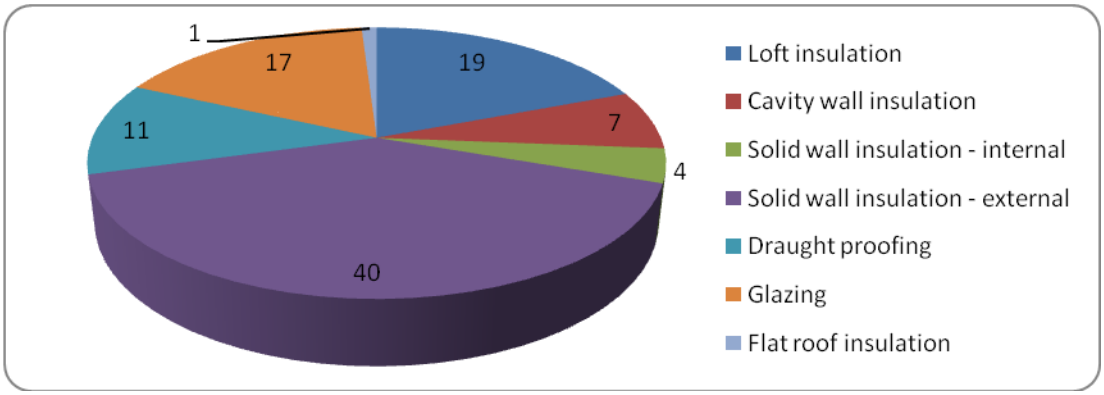
4.1. Centrica has submitted 46 schemes entailing 188 measures.

Fig 4.1. Measures in Centrica schemes



4.2. Of the 99 insulation measures 44 are solid wall offerings as shown in figure 4.2.

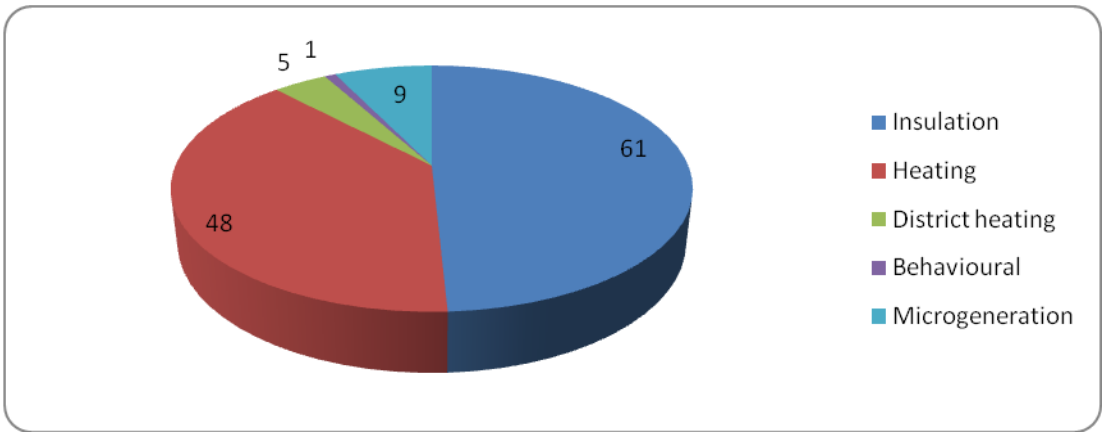
Fig 4.2. Insulation measures in Centrica schemes



EDF

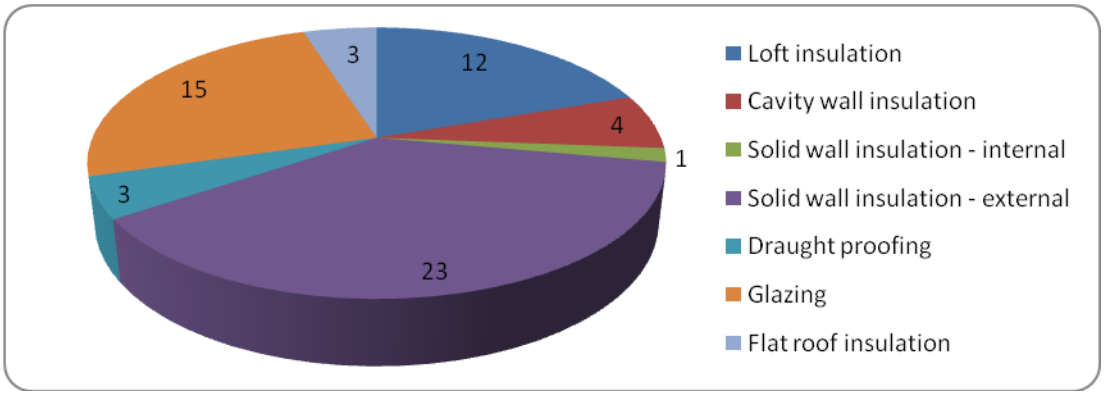
4.3. EDF has submitted 30 schemes encompassing 124 measures as illustrated in Figure 4.3.

Figure 4.3. Make-up of EDF Schemes



4.4. Insulation measures comprise 49% of the total offered by EDF and of these, 40% are for solid wall insulation, as shown in figure 4.4.

Figure 4.4. Insulation measures offered by EDF



E.ON

4.5. E.ON has proposed 18 schemes totalling 86 measures, all of which are either insulation (65%) or heating (35%) measures.

Figure 4.5. Measures in E.ON schemes

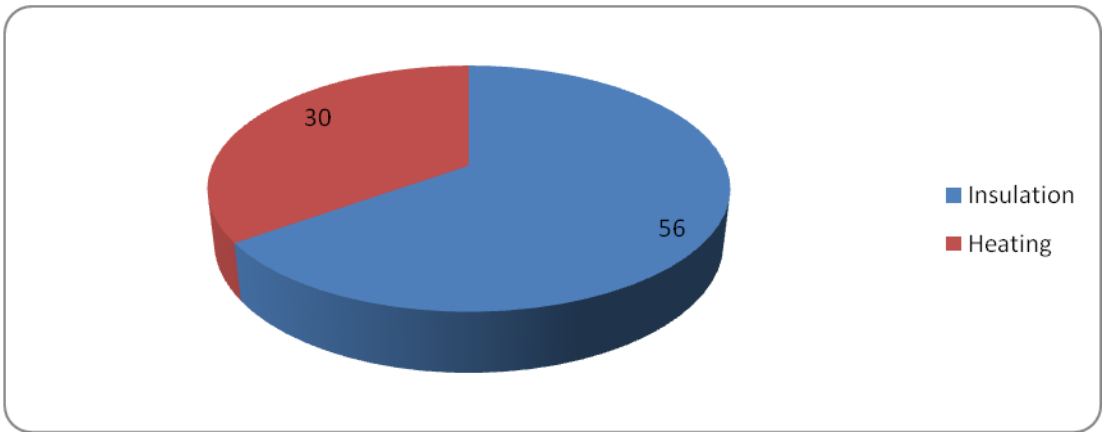
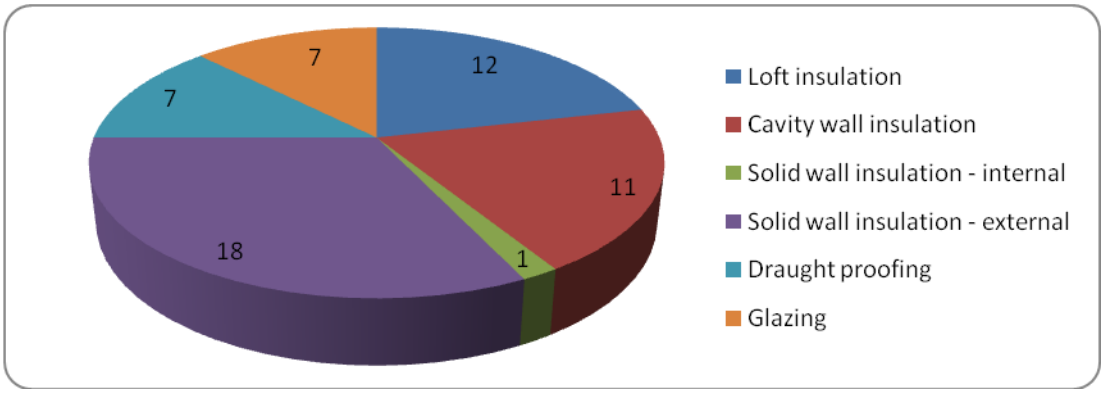


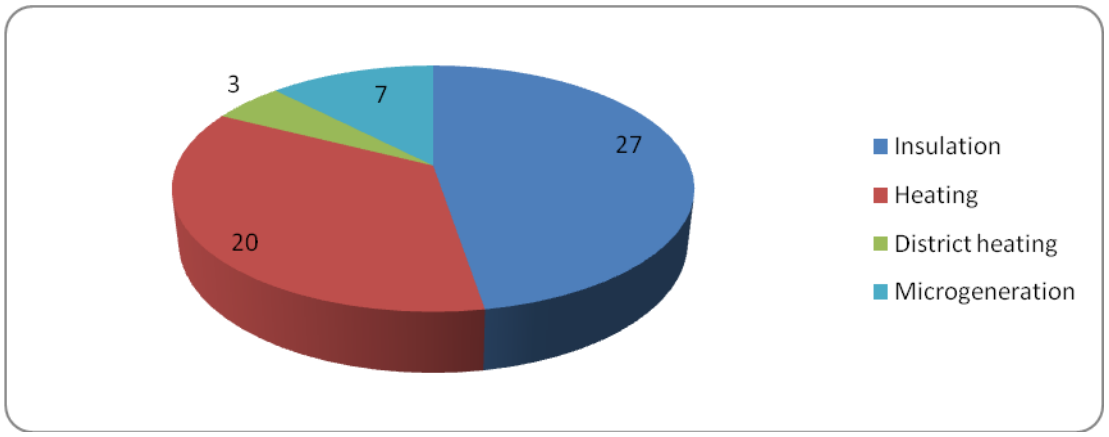
Figure 4.6. E.ON insulation measures



Npower

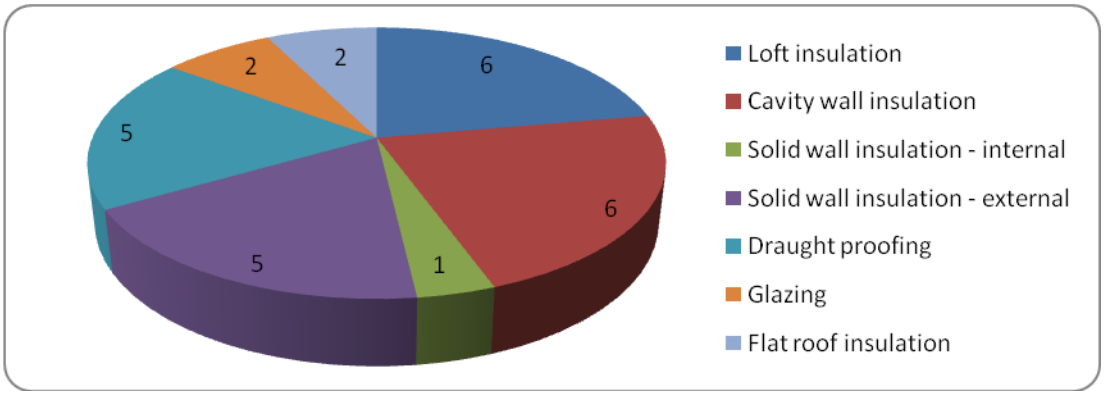
4.6. Npower has submitted 8 schemes encompassing 57 measures.

Figure 4.7. Measures in Npower schemes



4.7. Insulation measures make up 47% of the overall total.

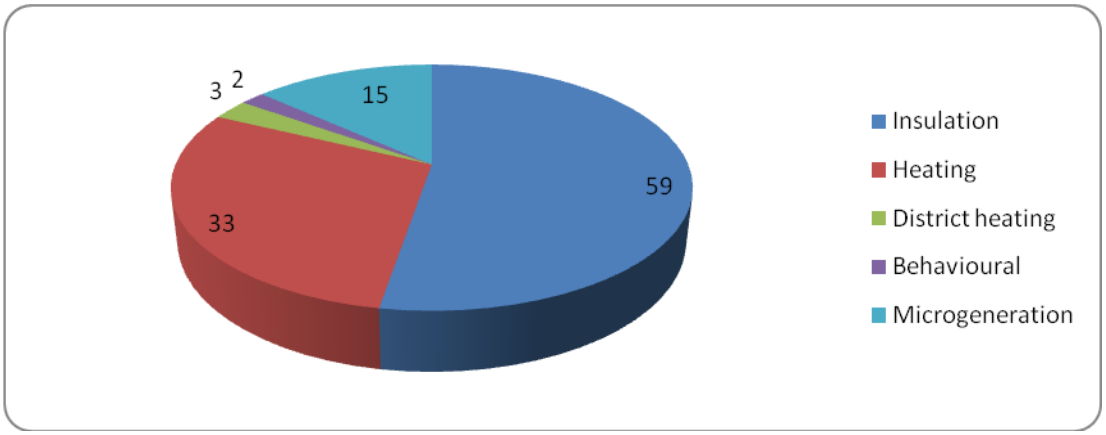
Figure 4.8. Npower insulation measures



Scottish & Southern

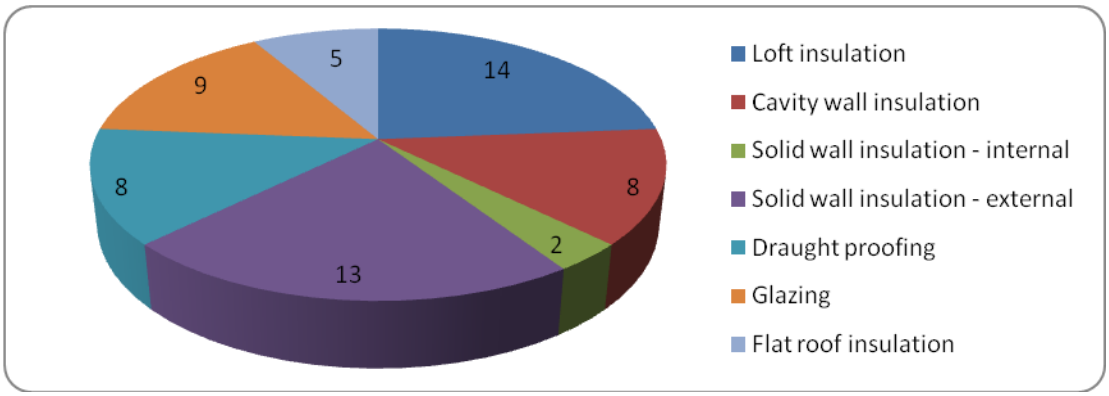
4.8. By 31 December 2010 Scottish & Southern had proposed 15 schemes comprising 112 measures, just over half of which are insulation measures.

Figure 4.9. Measures in Scottish & Southern Schemes



4.9. The make-up of these insulation schemes is illustrated in figure 4.10.

Figure 4.10. Scottish & Southern insulation measures



ScottishPower

4.10. Scottish Power has proposed 10 schemes comprising 54 measures of which 31 (57%) are insulation measures.

Figure 4.11. Measures in Scottish Power schemes

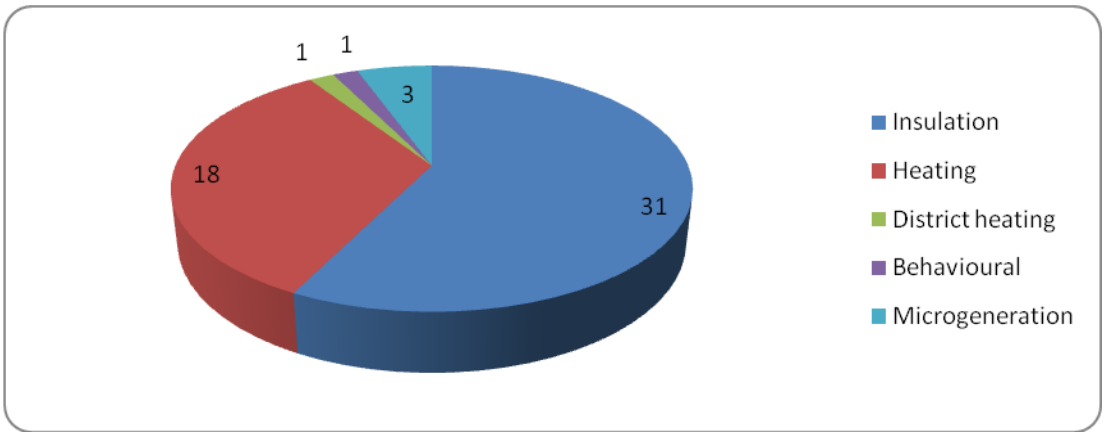
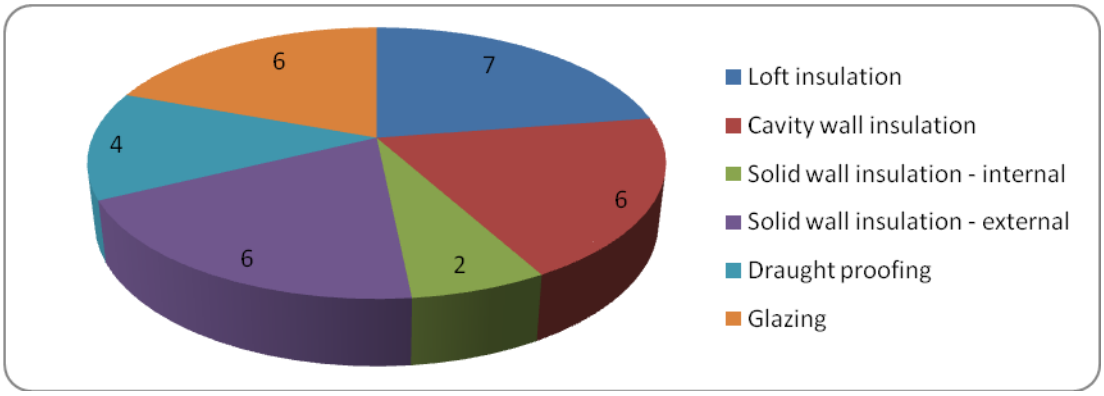


Figure 4.12. Scottish Power insulation measures



5. Emerging Issues

Chapter Summary

Issues relating to scheme complexity, overall programme size, incentives and compliance are noted in this chapter.

5.1. The CESP is designed, in part, to be a "bridge to the future" enabling lessons to be learned from elements of the programme such as the community partnership approach.

5.2. Several features may be considered to contribute to this learning process including the promotion of whole house approaches via bonus incentives; the promotion of community based approaches also via bonuses; delivery to restricted, but clearly defined, geographical areas; restriction to the set of allowable measures; adjustments (both up and down) to CESP "scores" for individual measures in order to encourage particular measures; the high number of hard to treat properties in eligible LSOAs.

5.3. As a result the CESP is considerably more complex than programmes such as the Carbon Emissions Reduction Target (CERT) and a number of important lessons and findings are already emerging, as detailed below.

Technical Issues

5.4. Under the CERT programme obligated parties do not take on technically challenging projects where they are not cost effective. The incentives provided under CESP now make such projects commercially viable. However, evaluating the carbon emissions reductions for such properties has been difficult for both obligated parties and for Ofgem because they do not fit the standard evaluation models.

5.5. The structure of incentives under CESP is such that a "ratcheting" effect encourages the companies to do as much activity as possible in every house and in a specific area. The whole house bonus is applicable to the carbon emissions reduction score for each measure provided to a dwelling where more than one qualifying measure is provided. An increase in carbon emissions reduction scores is also provided for all qualifying actions in a particular LSOA if the percentage of domestic energy users to whom actions have been provided exceeds 25%.These incentives have encouraged the companies to consider carefully the way they plan their activity and potentially could have caused a delay in activity as the obligated parties prioritised their activity. In addition schemes containing multiple measures must have each proposed measure approved prior to full scheme approval. Just 11 schemes were submitted by obligated parties between the programme start date of 1 October 2009 and 31 March 2010. As the parties have learned how to tackle this complexity the rate of submission has risen to average almost 18 per month in the six months to December 2010. Even so, the relatively low level of reported savings

suggests that generators and suppliers are experiencing difficulties in implementing schemes.

5.6. In some schemes we have seen measures that would have been marginal under the CERT promoted by obligated parties. This will be beneficial for those consumers that receive these measures but could undermine the carbon savings actually achieved by the scheme. In addition, suppliers have been using measures in their schemes that will give them the maximum coverage in an area. Some of the key issues that we have worked with the obligated parties on over the year are provided below:

- Determining the carbon savings to be accredited to properties that have a mixed cavity/solid wall form
- The accreditation of solid wall insulation on properties with a very narrow cavity
- The different forms of solid wall insulation
- The accreditation of PV on blocks of flats
- Mitigating the possibility of double counting between CESP and CERT for certain measures e.g. glazing.

5.7. We have also aimed to simplify as far as appropriate the process of consultation between the supplier and the local authority.

Administration

5.8. The complexity of the programme, involving adjustments to eligible measures scores, whole house bonuses, and area bonuses has made the process for evaluating emissions reductions difficult and complex for Ofgem E-serve to administer and for the obligated parties to deliver.

5.9. This report fulfils Ofgem E-serve's responsibility, as administrators of the programme, to monitor and report on the progress of the obligated parties. However, as will be evident from the foregoing, the complex interaction of uplifts and bonuses has made it difficult at this stage to evaluate obligated parties' achievements and thus to track their progress towards compliance.

5.10. As reported above, some 142 schemes had been submitted by 31 December 2010 with estimated savings amounting to nearly 37% of the overall target. It is thus possible that the eventual number of schemes could be in the region of 400.

Forward Look

5.11. Since 1 January 2011 significant progress has been achieved working with obligated parties, industry representatives, and DECC in resolving a number of

technical challenges which are highlighted in this report. This has led to a rapid increase in the rate of scheme approvals, a trend which is expected to continue.

5.12. Over the coming year Ofgem will continue to work with the obligated parties as further schemes are developed to ensure that these are compliant with the requirements of CESP.

5.13. Ofgem will continue its work on compliance and progress monitoring. It is anticipated that further clarity on the effects of incentives on scheme structure and operation will emerge during the year. Also it is likely that further trades will be requested, particularly intra-group, as obligated parties seek to optimise their schemes.

5.14. In order that this monitoring may be as comprehensive as possible it is essential that obligated parties report activity fully and in a timely fashion. Ofgem will work with generators and suppliers to ensure that this occurs.

5.15. Publication of the semi-annual newsletter will continue and Ofgem will report again to the Secretary of State in May 2012.

Appendices

Index

Appendix 1 – Qualifying Actions

1.1. Qualifying actions (measures) as described in this report are outlined in the table, below.

Measure Type	Measure
Insulation	Loft insulation
	Cavity wall insulation
	Solid wall insulation (external)
	Solid wall insulation (internal)
	Draft proofing
	Double glazing
	Flat roof insulation
	Under-floor insulation
Heating	Replacement boiler
	Heating controls
	Fuel switching
District heating	Connection to a district heating scheme
	Upgrade of a district heating scheme
	District heating meter for individual house billing
Behavioural	Home energy advice package
Microgeneration	Heat pump
	Biomass boiler
	Solar hot water
	Other microgeneration (heat)
	Solar PV
	Wind turbine
	Micro-hydro
	Other microgeneration (electricity)
	Micro-CHP

Appendix 2 – Generator and Supplier Licences and Companies' Structure

2.1. Parties obligated under the Community Energy Saving Programme Order 2009, as at 14 March 2010 are

Suppliers

Group Name	Licence Holder	Product Supplied
Centrica plc	British Gas Trading Ltd	Electricity
	British Gas Trading Ltd	Gas
EDF Energy	EDF Energy Customers plc	Electricity
	SEEBOARD Energy Limited	Electricity
	SWEB Energy Limited	Electricity
	EDF Energy Customers plc	Gas
	SEEBOARD Energy Gas Limited	Gas
E.ON UK plc	E.ON Energy Limited	Electricity
	Economy Power Limited	Electricity
	E.ON Energy Limited	Gas
	E.ON Energy Gas (Eastern) Limited	Gas
RWE Npower plc	Npower Limited	Electricity
	Mpower Northern Supply Limited	Electricity
	Npower Northern Limited	Electricity
	Npower Yorkshire Supply Limited	Electricity
	Npower Direct Limited	Electricity
	Electricity Plus Supply Limited	Electricity
	Npower Yorkshire Limited	Electricity
	Npower Gas Limited	Gas
	Npower Commercial Gas Limited	Gas
	Npower Northern Limited	Gas
	YE Gas Limited	Gas
	Npower Direct Limited	Gas
	Gas Plus Supply Limited	Gas
	Npower Yorkshire Limited	Gas
Scottish Power Ltd	ScottishPower Energy Retail Limited	Electricity
	ScottishPower Energy Retail Limited	Gas
SSE plc	SSE Energy Supply Limited	Electricity
	South Wales Electricity Limited	Electricity
	Southern Electric Gas Limited	Gas
	SWALEC Gas Limited	Gas

Group Name	Licence Holder	Product Supplied
	Atlantic Gas Limited	Gas
	Scottish Hydro Electric Gas Limited	Gas

Generators

Group Name	Licence Holder
Centrica plc	Centrica Barry Limited
	Centrica Brigg Limited
	Centrica KL Limited
	Centrica KPS Limited
	Centrica Langage Limited
	Centrica PB Limited
	Centrica RPS Limited
	Centrica SHB Limited
Drax Group plc	Drax Power Limited
EDF Energy	Eggborough Power Limited (1)
	British Energy Generation Limited
	EDF Energy (Jade Power Generation Limited)
	EDF Energy (Sutton Bridge Power Limited)
	West Burton Limited
	British Energy Generation (UK) Limited
	EDF Development Company Limited
	EDF Energy (West Burton Power) Limited
	NNB Generation Company Limited
E.ON UK	E.ON UK plc
	Citigen (London) Limited
	Enfield Energy Centre Limited
GDF Suez SA	GDF Suez Teeside Limited
	GDF Suez Shotton Limited
	GDF Suez Marketing Limited
Intergen Projects (UK) Limited	Rocksavage Power Company Limited
	Coryton Energy Company Limited
	Spalding Energy Company Limited
IPM (UK) Power	Rugeley Power Generation Limited
	Indian Queens Power Limited
	Saltend Cogeneration Company Limited
	Deeside Power Limited
	First Hydro Company
	International Power plc

Group Name	Licence Holder
	IPM Energy Trading Limited
RWE Npower plc	RWE Npower plc
	Npower Cogen Trading Limited
	Gwynt Y Mor Offshore Wind Farm Limited
	NPower Direct Limited
SSE plc	SSE Generation Limited
	SSEPG (Operations) Limited
	Medway Power Limited
	Keadby Generation Limited
	Fibre Power (Slough) Limited
	Greater Gabbard Offshore Wind Farm Limited
	Uskmouth Power Company Limited
	Keadby Developments Limited
ScottishPower Generation Limited	ScottishPower Generation Limited
	ScottishPower (DCL) Limited
	ScottishPower (SCPL) Limited)

(1) Since 14 March 2010 Eggborough Power Limited has been divested by EDF Energy.

Appendix 3 - 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 (such as the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Acts of 2004, 2008 and 2010) as well as arising from directly effective European Community legislation.

1.3. References to the Gas Act and the Electricity Act in this appendix are to Part 1 of those Acts.[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.[4]

1.4. The Authority's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them.

1.5. The Authority is generally required to carry out its functions in the manner it considers is best calculated to further the principal objective, wherever appropriate by promoting effective competition between persons engaged in, or commercial activities connected with,

- the shipping, transportation or supply of gas conveyed through pipes;
- the generation, transmission, distribution or supply of electricity;
- the provision or use of electricity interconnectors.

1.6. Before deciding to carry out its functions in a particular manner with a view to promoting competition, the Authority will have to consider the extent to which the interests of consumers would be protected by that manner of carrying out those functions and whether there is any other manner (whether or not it would promote competition) in which the Authority could carry out those functions which would better protect those interests.

[3] Entitled "Gas Supply" and "Electricity Supply" respectively.
[4] 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.

1.7. In performing these duties, the Authority must 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[5]; and
- the need to contribute to the achievement of sustainable development.

1.8. In performing these duties, the Authority must have regard to the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.[6]

1.9. 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[7] 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,

  and shall, in carrying out those functions, have regard to the effect on the environment.

1.10. In carrying out these functions the Authority must also have regard to:

- 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.

1.11. The Authority may, in carrying out a function under the Gas Act and the Electricity Act, have regard to any interests of consumers in relation to communications services and electronic communications apparatus or to water or sewerage services (within the meaning of the Water Industry Act 1991), which are affected by the carrying out of that function.

[5] 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 Acts in the case of Electricity Act functions.
[6] The Authority may have regard to other descriptions of consumers.
[7] Or persons authorised by exemptions to carry on any activity.

1.12. 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[8] 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.

[8] Council Regulation (EC) 1/2003.

Appendix 4 - Glossary

C

CERT

Carbon Emissions Reduction Target

CESP

Community Energy Saving Programme 2009-2012

CHP

Combined heat and power

CO_2

Carbon dioxide

D

DECC

Department of Energy and Climate Change

E

ECO

Energy Company Obligation

I

IMD

Index of Multiple Deprivation

K

$ktCO_2$

Thousands of tonnes of carbon dioxide

L

LSOA

Lower super output area

M

$MtCO_2$

Millions of tonnes of carbon dioxide

O

Order, The

The Electricity and Gas (Community Energy Saving Programme) Order 2009

P

PV

Photovoltaics