The Energy Efficiency Commitment
a regulator’s view point

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What is Ofgem?

The Office of Gas and Electricity Markets (formally the Gas and Electricity Markets Authority) is the independent regulator of the gas and electricity industry in GB.

- promotes competition where appropriate (in the generation, supply and metering businesses)
- regulates effectively where there is a natural monopoly (transportation and distribution businesses).
Ofgem’s role

- Set the individual company targets
- Assess and approve all of the suppliers’ schemes
- Monitor the suppliers’ activity
  - Per scheme
  - Per supplier
- Report to the Secretary of State each year
- Enforce the target through its legal powers
EEC in a competitive market

- The scale of energy efficiency activity is far higher than suppliers would undertake as part of their supply businesses.
- The EEC is a cost to the supply business.
- The competitive supply market encourages suppliers to minimize the cost of EEC.
Nature of EEC contracts

- Few long term contracts with the installers
- There is pressure on the available capacity
- Increasing volumes is leading to upward pressure on prices
Middlemen (managing agents)

- Middlemen are very active in the EEC market
- There is no role for market makers in the EEC
- Managing agents look to the suppliers for the best price
Working with Social Housing Providers

- Search cost minimized
- Large volumes of high energy efficiency measures
- Additionality is key
- Social housing providers look to the suppliers for the best price
Retail schemes

- Market transformation
- Consumer need not know about EEC activity
- Large volumes of energy efficient products
- Able to pay market
- Retailers look for the best price
Market transformation of appliances
Working with the consumer

- Search costs are higher
- Consumer needs to be persuaded to take energy efficient product
- Consumer might be expected to make a contribution
- Able to pay market
EEC activity to date

Priority Group

Non Priority Group

Achieved
Remaining

0 10 20 30 40
EEC1: Share of activity to date

- Insulation: 58%
- Lighting: 22%
- Appliances: 12%
- Heating: 8%
Comparison of measures EEC to EEC2
EEC activity to date against proposed EEC2 target
Carry over

- Defra have proposed that suppliers will be able carry over all their excess activity installed under the current EEC programme to EEC2.
- Suppliers will have to carry over the measures rather than the energy savings.
- Ofgem will agree the energy savings to be carried over with suppliers.
Conclusions

- Little formal trading of energy efficiency measures through the legislation
- Competitive auctions work with the different project partners are working effectively
- Requiring the supply companies to operate this programme in the competitive market encourages them to minimise costs
- The regulatory framework of the EEC has ensured good progress towards the current targets and has incentivised suppliers to start work early on their EEC targets, but has limited trading activity
Promoting choice and value for all gas and electricity customers