

Energy Efficiency Commitment in Great Britain

Martin Devine

UK Department for Environment,
Food and Rural Affairs

Trondheim March 2006

Purpose of EEC

- Aim of EEC is to help consumers in the household to use less energy
- EEC is key to our carbon abatement objectives in the household sector
- Also contributes to the alleviation of fuel poverty

What is the EEC?

- Electricity and gas suppliers must achieve targets for the promotion of improvements in household energy efficiency in Great Britain
- First three-year phase of the EEC ended in March 2005. Current phase runs from April 2005 to March 2008
- Government's Energy Efficiency Action Plan stated intention to extend EEC to 2011

How does EEC work?

- Framework for the EEC and the overall target on all suppliers is set by Government via legislation, following informal and formal consultation
- Ofgem, the Regulator, is responsible for administering EEC – including setting suppliers' individual targets, monitoring, enforcement and reporting to Government on progress

How do suppliers meet EEC targets?

- Open to suppliers to meet their targets as cost-effectively as possible. They are not required to spend a fixed budget
- Encourage and assist consumers to take up energy efficiency measures, like cavity wall and loft insulation and energy efficient appliances and light bulbs
- Work directly with customers and in partnership with others, including social landlords, manufacturers and retailers of energy efficient products

EEC 2002-05

- Key outcome was that all solvent suppliers met their EEC targets
- Carbon savings likely to be around 0.4 million tonnes a year
- Transitional arrangements to EEC 2005-08 allowed suppliers to maintain EEC activity and start work early on the current phase

EEC 2005-08

- Target of 130 TWh approximately double the level of activity of the first phase
- Carbon savings likely to be around 0.7 millions tonnes a year by 2010
- Suppliers must direct at least 50% of energy savings to a priority group of low-income consumers

EEC 2008-11

- Government review in 2007 to inform setting of target for EEC 2008-11
- Will involve a wide range of stakeholders
- Outcome of review will be statutory consultation in spring 2007

Consumer benefits

- Ongoing financial benefit in terms of lower energy bills or increased comfort
- For EEC 2005-08 estimated at around £16 a year for the lifetime of measures, which can be much longer than the three-year EEC period

Consumer benefits (2)

- Suppliers must direct at least 50% of energy savings to a priority group of low-income consumers
- As a result EEC contributes to the alleviation of fuel poverty and of the risk of ill health caused by cold homes

Carbon saving

- Must also mention environmental benefit
- EEC 2005-08 expected to save around 0.7 million tonnes of carbon a year by 2010

Cost to consumers

- Costs of the EEC fall on suppliers
- Suppliers may pass on costs to consumers through their energy bills
- Suppliers' costs are the share of the cost of measures they have to contribute to induce householders to take them up
- Also their costs of developing and administering EEC schemes

Cost to consumers (2)

- Not known whether suppliers pass on costs to consumers in full or in part
- If passed on in full, the annual cost per household for the three years of EEC 2005-08 is estimated to be no more than about £16

Cost to consumers (3)

- While the costs of EEC last only for the three years of the programme, the benefits last for the lifetime of the measures – up to 40 years in the case of cavity wall insulation or 12 years for cold appliances
- Households need only install two 20-Watt CFLs in high usage fittings for the extra cost of EEC 2005-08 to be covered by the financial savings

Trading & Interaction

- EEC incorporates trading for the same underlying reasons as our theoretical WhC scheme
 - 1) Reducing costs (finding the lowest cost supply of savings)
 - 2) Reducing risk – risk of non-compliance (10%!) & risk of higher costs

Trading & Interaction (2)

3 forms of trading

- Horizontal - between suppliers
- Inter-temporal - between compliance periods
- Vertical – between suppliers and project developers

Trading & Interaction (3)

- Horizontal – virtually none
- Inter-temporal – very popular (20% of EEC2 met in EEC1)
- Vertical – the most important, suppliers have contracted out most of their measures to 3rd parties

Trading & Interaction (4)

Transition to TWC?

- Separating measures from credits
- Project developers get more freedom to implement measures – but what would they be?
- Risk may induce forward contracts – a bit like the current EEC
- More small scale MRV could increase costs

Trading & Interaction (5)

UK Renewables Obligation

- 10% by 2010, aspiring to 20% by 2020
- EEC addresses energy, rather than CO₂ – this limits the interaction in policy terms (in EEC CO₂ reduction is just one ancillary benefit)
- Some renewable options can support measures under EEC – home installations etc

Trading & Interaction (6)

EU ETS

- EE policies affecting CO2 emissions from EU ETS facilities will have no immediate CO2 benefit – it just frees up allowances.
- Linking would incur double counting problems
- A safety valve option could benefit in the short term, but leaks many benefits of EE.

Thank you

Martin.Devine@defra.gsi.gov.uk

www.defra.gov.uk