

October 2006



**Initial consultation by DEFRA
The Energy Efficiency Commitment April 2008 to March 2011**

Response by the UK Business Council for Sustainable Energy

Introduction

The Council welcomes this initial consultation by DEFRA on the third phase of the Energy Efficiency Commitment (EEC3).

This submission is separated into 3 sections:

1. **A coordinated approach** outlines the need for an integrated and coordinated approach to carbon abatement across all sectors;
2. **Supplier obligation beyond 2011** outlines some of the key considerations for the future direction of a supplier obligation on households; and
3. **EEC3 consultation** outlines the Council's response to specific questions raised in the Initial consultation by DEFRA on the Energy Efficiency Commitment April 2008 to March 2011.

Key points

- The greenhouse challenge requires an integrated and coordinated approach across all sectors.
- The Council supports the principle of moving to an absolute carbon emissions reduction target instead of the current energy efficiency target.
- The Council supports a more flexible, outcome focussed approach to delivering carbon abatement in the household sector.
- The detailed design of EEC3 should be consistent with the direction of a supplier obligation beyond 2011, with the experience of EEC3 used to inform the development of future programmes.
- The Council supports the development of a separate and targeted set of policies to increase access to affordable energy and help address fuel poverty through strong partnerships with local authorities and others.

A coordinated approach

Underpinning the Government's climate change policy is a set of challenging greenhouse abatement targets. Delivery of these targets will require significant changes to the way in which energy is used and supplied in the UK. This will require an integrated and coordinated approach across all sectors.

The scale of change that is required to address the greenhouse challenge is widely recognised and accepted. However, a Government framework that clearly outlines the critical pathways is now needed. A consistent and sustained approach is needed to maintain and reinforce investor confidence and ensure that key strategic decisions are made in a timely manner.

Energy efficiency has a particularly important role to play in addressing the challenge of climate change. There is already a range of policies and programmes focussed on delivering energy efficiency improvements in particular sectors. However, there is a need for a comprehensive and coordinated approach to energy efficiency that focuses on carbon abatement and demand reduction across *all* sectors using a range of delivery partners.

Supplier obligation beyond 2011

The Government has made a commitment to maintaining a household obligation on suppliers in some form to 2020. When designing the detailed implementation of EEC3, it is therefore important to consider the longer-term direction of a supplier obligation beyond 2011.

There have been some preliminary discussions with industry about the form of a supplier obligation beyond 2011. Key points raised to date include:

- a. the need for clarity about what the supplier obligation is aiming to achieve (eg - carbon abatement, absolute demand reduction or energy efficiency improvements);
- b. the potential for implementing a scheme that complements the proposed Energy Performance Commitment that is largely focussed on the commercial sector;
- c. the importance of flexibility in delivering abatement, particularly as the least expensive energy efficiency options, such as cavity wall insulation, are realised;
- d. the challenge of realising the commercial opportunities associated with carbon abatement with a move towards more commercially based measures in the long-term;
- e. the role of other stakeholders in delivering the Government's climate change objectives.

It is critical that experiences from the implementation of EEC are used to inform the development of future activities in the residential sector. This requires a sustained focus on effective monitoring and evaluation.

EEC3 consultation

Carbon emissions reduction obligation

The Council supports moving to an absolute carbon emissions reduction target instead of the current energy efficiency target.

The Council welcomes the Government's move to a more flexible approach that enables suppliers to test a range of innovative energy saving options. In particular, the Council supports:

- a. the inclusion of behaviour change measures, such as trialling the use of differential tariffs and smart meters; and
- b. the inclusion of microgeneration in EEC3.

Given the increasing focus on the development of a heat market, it would seem appropriate to actively consider how heat based measures can be included in EEC3. This could include consideration of the contribution solar thermal devices and micro-CHP systems make in terms of heat energy savings and carbon abatement.

The Council supports using lifetime carbon savings for the EEC3 targets and scores. For the longer-term we believe an approach that is more outcome focussed with less reliance on prescribed energy efficiency options is desirable.

Transition to 2008-2011

The Council supports the early provision of information to energy suppliers about the overall target and the ranking of particular energy saving actions to ensure a smooth transition to EEC3. Early provision of the information will help suppliers plan their approaches to meeting the obligation.

It is understood that there is a range of studies currently underway that may impact on the relative "scores" of different energy saving actions. We would encourage DEFRA to consider which studies are currently underway and take the timing of these studies into account when finalising the scores.

It is also important to consider the transition to a supplier obligation beyond 2011, and ensure that the detailed design of EEC3 supports this longer-term direction.

Equity issues

Currently the Energy Efficiency Commitment is delivering both environmental and social objectives.

A focus on large energy users is likely to deliver the greatest environmental benefits. However, there are also equity considerations that need to be taken into account.

We believe that while there is a need to ensure the equitable distribution of benefits of EEC measures across the residential sector, we understand that the focus on delivering savings in the priority group has meant that some energy suppliers have had difficulty in supporting activities in the non-priority group.

Currently EEC3 is one of a range of measures that help to address fuel poverty. The UKBCSE supports the development of a separate and targeted set of policies to increase access to affordable energy. This approach should be structured to include the innovative delivery of long-term reduction of fuel poverty, through strong partnerships with local authorities and others.

Opportunities for trading

The use of EEC3 to further investigate the potential for a cap and trade system to build the capacity of suppliers and to inform the development of a supplier obligation beyond 2011 merits full and thorough consideration.

Expanding the use of trading through the supplier obligation needs to be considered in the context of the broader package to deliver carbon abatement in the UK.

Conclusion

Addressing the challenge of climate change requires an integrated and coordinated approach to carbon abatement across all sectors that engages a range of delivery agencies including energy suppliers, local authorities and the emerging energy services sector.

Discussions are currently underway about the direction of a supplier obligation beyond 2011. EEC3 provides a good opportunity to trial a range of options to deliver carbon savings to inform the development of a future obligation on suppliers,

To help develop the commercial opportunities associated with energy efficiency in the household sector, the Council supports:

- moving to an absolute carbon emissions reduction target; and
- a more flexible, outcome focussed approach to delivering carbon abatement in the household sector.

In addition, we support the development of a separate and targeted set of policies to increase access to affordable energy and help address fuel poverty.

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The views expressed in this paper cannot be taken to represent the views of all parts of all the companies in the UK Business Council for Sustainable Energy. However, they do reflect a general consensus.