

**EEC3 Consultation Seminar
Day 2: Friday 6 October 2006
Summary Report**

1. Background

Defra and the Energy Efficiency Partnership for Homes hosted a “town hall” meeting on Friday 6 October 2006, bringing together 110 stakeholders from the energy efficiency industry to discuss issues related to the Initial Consultation on the Energy Efficiency Commitment 2008-11 (EEC3).

The meeting provided context and background about the Initial Consultation, fed back to delegates the results of discussions at a Stakeholder Workshop the previous day and explored three main topic areas:

- Flexibility and Innovation
- Equity
- The Transition from EEC 2005-2008 (EEC2) to EEC3

This report summarises the key questions discussed, areas of general agreement and areas for further discussion. It should be considered in conjunction with the Summary Report for the Stakeholder Workshop (held on 5 October 2006). A more detailed review of discussions will be available in the Full Event Report due to be issued during October 2006.

The meeting was chaired by John Chesshire, Chair of the Energy Efficiency Partnership for Homes.

2. Initial Consultation on EEC3

Jackie Janes, Head of Defra’s Sustainable Energy Policy Unit, opened the seminar with an overview of the EEC3 Initial Consultation.

Household energy demand is rising by 2% per annum, whilst business as usual energy efficiency improvements are at 1% per annum. One task for Government is to move forward policies which will lead to real demand reduction. Government is also keen to ensure that existing energy efficiency technologies are deployed effectively, that new technologies are moved forward and markets transformed, that energy supply is decarbonised and that consumer behaviour reflects the need for energy saving.

EEC remains one of the Government’s most cost effective carbon reduction policies. Energy suppliers are making very significant progress towards meeting their EEC2 targets. Progress is so sound that 2007 could be a leaner year in terms of EEC activity unless suppliers choose to start work on EEC3 targets early.

Targets for EEC3 are expected to be 50-100% larger than EEC2. To encourage early action towards these increased targets, it has already been announced that suppliers will be able to carry over an unlimited amount of energy savings from EEC2 carryover.

The Initial Consultation document considers some key issues:

- The Climate Change and Sustainable Energy Act enables a move to a carbon emission reduction target. It also allows for allow microgeneration and behavioural measures to be incorporated into EEC. The document considers the possibility of increased scope for innovation and a “ring-fencing” approach for measures where data is less robust.
- There are concerns over securing a smooth transition between EEC2 and EEC3 and the consequences of any drop-off in work in 2007 - consequences for installers, manufacturers

and retailers among others. The option of unlimited carryover should encourage suppliers to start early. To provide further certainty, Government is considering setting the EEC3 scores for some measures by the end of 2006. The first draft of the Illustrative Mix was published at the end of September.

- The Priority Group requirement exists for equity reasons, not for fuel poverty reasons. If it were left to the market to decide where to invest, suppliers would carry out the majority of measures in the more cost-effective Able-to-Pay sector. However, all households pay for EEC so all should have an opportunity to benefit.
- While it is not an EEC objective, the Priority Group requirement has had some impact on reducing fuel poverty. However, suppliers' concentration on cost effective measures means that the fuel poor, a significant proportion of whom live in solid walled houses, may not benefit.
- The Initial Consultation document looks at the option of a supplier exemption from part of the Priority Group target. This could take the form of a "differential exemption", where the supplier pays the cost difference between the provision of measures to the Priority Group and the Non-Priority Group to a relevant third party and is exempted from a percentage of their Priority Group target whilst still achieving the same carbon target by carrying out measures with non-priority group consumers. The Initial Consultation also considers a "total exemption" option, where a supplier pays the full cost of delivering their Priority Group target to a third party and receives a reduced carbon target.
- The exemption "money" would be used to target energy efficiency measures at low-income households.
- The Initial Consultation document also considers opportunities for trading and invites comments to inform the development of future schemes.

3. Flexibility and Innovation

3.1 Feedback from the Previous Day's Stakeholder Workshop

The following feedback was provided from the previous day's Stakeholder Workshop. There was broad agreement that:

- Microgeneration should be included in EEC3 but should be considered in combination with energy efficiency, not in isolation.
- There should also be consideration of the treatment of existing, proven technologies that are not yet cost-effective (e.g. solid wall insulation).
- There is recognition of the need to share risk for innovative measures and a willingness to do so from both Government and industry.
- A "ring-fence" for innovation could be effective; this would enable energy suppliers to innovate in their choice of technical measures and delivery mechanisms whilst recognising that innovation carries greater risk than delivery of proven measures and that it may not lead to predicted carbon savings.
- Product market transformation is a lengthy process and programmes such as EEC3 need to allow time for technologies to be proven, data to be gathered on new products and commercial markets to develop. This may not be possible in a three-year time frame, so consideration needs to be given to the impact and recognition of energy savings from innovative measures post-2011.
- Frameworks and administrative systems for a ring-fenced approach need to be simple to use and understand.

- Monitoring of the outcomes of innovative approaches is both important and challenging. Monitoring should be undertaken by an independent third party.
- Trading is generally something for the longer term (post 2011) but EEC3 provides an opportunity to develop expertise. In the short-term, there was discussion about retrospective trading and the merits of extending the time period within which this is allowed from one month to three months.
- The unit of measurement for savings during EEC3 should be lifetime carbon saving.

There were also some areas requiring further discussion:

- The pathway for emerging technologies - from R&D to field trials to market transformation - has historically been managed across multiple programmes. What role should EEC3 play in market transformation for emerging technologies? How should EEC3 link with other initiatives (e.g. field trials, Low Carbon Buildings Programme)?
- Where multiple initiatives or programmes are involved, there is a risk of double counting carbon savings. How significant is this risk, and therefore how do we avoid double counting or make the best use of it where appropriate?
- Carbon savings from behavioural measures, for example changes in behaviour on receipt of energy advice, can be difficult to define. How should carbon savings from behavioural measures be calculated and how do carbon savings from behavioural measures and technical measures link together to avoid double counting?
- Should lifetime carbon savings be discounted? Is it an appropriate technique to use in this situation with its implication that earlier savings are intrinsically better?

3.2 Key Discussion Themes

Break-out sessions were held during the afternoon of the meeting. The delegates engaged in discussion on Flexibility and Innovation identified the following themes and issues:

- There are measures already approved under EEC that are not being utilised because they are not cost effective (e.g. solid wall insulation). The challenge remains identifying what will bring these measures on in EEC3.
- There are three types of innovation in technology:
 - Products or measures which are captured well in the Illustrative Mix and have been demonstrated in use
 - Products where there is no in-use demonstration data - this is likely to be where ring fencing comes in
 - Products still at the concept stage or under early development, where no information is available and which are likely to emerge during the lifetime of EEC3.
- Products at demonstration stage may not emerge fully within the lifetime of EEC3. There therefore needs to be consideration of transitional arrangements to capture energy savings post 2011.
- The group identified two types of innovation in behaviour - technical innovation enabling behavioural change (e.g. smart metering and feedback displays) and human behavioural change (e.g. changing use of heating controls). Both were recognised as valuable but complex to evaluate or measure, particularly in terms of lifetime carbon savings.
- There was general support for ring fencing but no conclusion on how it might operate.

4. Equity

4.1 Feedback from the Previous Day's Stakeholder Workshop

The following feedback was provided from the previous day's Stakeholder Workshop:

- It was recognised that EEC1 and EEC2 have delivered a significant number of energy efficiency measures to low-income households, more than would have been provided if no Priority Group requirement had existed.
- However, in most terms, EEC is perceived as not delivering equity. All households contribute to EEC, but low-income households who are not receipt of qualifying benefits (and therefore not in the Priority Group) are missing out, particularly those in the private sector or in hard to treat properties. Enquiries from Able-to-Pay households are being lost because of the current level of Priority Group requirement.
- If there is a Priority Group obligation under EEC3, it needs to be set at an appropriate level (not the maximum possible). Many delegates felt that the percentage level should be lower than under EEC2.
- Options other than a Priority Group requirement were discussed, for example, the idea of refunding to low-income households their contribution to EEC. Whilst there was interest in this, there was also concern about the administrative processes and costs involved.
- Opinion was split about whether there should be an exemption option for suppliers.
- If there is an exemption option, the "buyout fund" should be used to deliver a more locally integrated approach to tackling fuel poverty. It was suggested that this could take the form of a new scheme which brings together benefit health checks, eligibility issues and the provision of low- and high-cost energy efficiency measures as needed.
- A new programme could also leverage funding from other sources for activities such as benefit health checks which are not direct energy saving measures and therefore not eligible under EEC.
- Suppliers are keen to remain engaged with a third party programme, to monitor how their money is being spent and to leverage branding benefits.
- It was recognised that a new scheme tackling fuel poverty would not deliver cost effective energy savings in the same way that EEC does, but that social objectives would be the scheme's priority. The costs of finding and marketing to fuel poor households and the costs of energy efficiency measures will be higher than EEC, but there was a general view that management and administrative costs should be kept to a competitive level.

4.2 Key Discussion Themes

Break-out sessions were held during the afternoon of the meeting. The delegates engaged in discussion on Equity identified the following themes and issues:

- It was generally recognised that the definition of the Priority Group does not capture all those in fuel poverty, but that a wider definition would be difficult to achieve
- Early preference could be given to the large number of Priority Group households in hard-to-treat homes, particularly solid walled properties
- Identifying Priority Group customers carries higher costs, particularly as the "pool" of customers is reduced as measures are installed
- Priority Group customers are difficult to find and to retain. They are often targeted by multiple energy suppliers with different energy efficiency offers. This can cause confusion for consumers and a reluctance to take up measures.
- Energy suppliers naturally want to deliver cost-effective carbon savings and this has led to only a small proportion of higher cost measures being installed. There needs to be

recognition that high-cost measures need to be tackled at some point. Adopting a whole house approach using local partnerships for delivery could be beneficial.

- The social housing sector is a diminishing opportunity for EEC, although there is still substantial potential for cavity wall and loft insulation in the sector. There is also significant potential for energy suppliers to interface with local authorities' private sector grant schemes to support low-income households in the private sector.

5. Transition from EEC2 to EEC3

5.1 Feedback from the Previous Day's Stakeholder Workshop

The following feedback was provided from the previous day's Stakeholder Workshop:

- There was strong agreement that there is a need for early clarity and a smooth transition. Manufacturers need to make investment decisions. Installers need to make capacity decisions. Suppliers need to make judgements on price trends - when to buy, what to buy.
- All delegates would like Defra to publish indicative scores for measures by the end of 2006. There was a general view that these figures should be published whilst allowing a margin for adjustments of +/- 2-3% (or similar figure) in case new information about the energy savings of specific measures comes to light.
- A direction from Defra on how the Priority Group might be treated under EEC3 would be welcomed by the end of the year.
- Adjustments to the ratio of Able-to-Pay:Priority Group could enable suppliers to achieve greater cost-effective carbon savings. However, consideration is needed into the impact of any reduction of resources to the Priority Group and how this might be offset by other funding or support.
- Energy suppliers have the ability to carry over unlimited energy savings from EEC2 to EEC3 once their targets have been met. This is intended to stimulate an early start to EEC3 projects, helping to smooth the peaks and troughs of demand which some parts of the energy efficiency industry may face. However, an early start to achieving EEC3 targets is not guaranteed by all suppliers and is dependent on market conditions. It was suggested that an incentive could be provided to suppliers to undertake early EEC3 work. There was a counter view that market conditions may be such that suppliers are motivated to start early without any additional incentive.

5.2 Key Discussion Themes

Break-out sessions were held during the afternoon of the meeting. The delegates engaged in discussion on the transition from EEC2 to EEC3 identified the following themes and issues:

- It is important for all industry players to understand each others' position - many investment decisions need to be made 18 months ahead so need clarity of numbers as early as possible. Other market participants operate in much shorter timeframes, with budgets only confirmed one year at a time.
- Whilst there is concern that 2007 might be a "flat" year, there is the opportunity to bring work forward from EEC3. A large amount of this might be targeting the Priority Group, if it is clear from Defra that there will continue to be a Priority Group requirement post 2008.
- It would be valuable for the industry to conduct a full risk assessment of the possible impacts of the transition from EEC2 to EEC3, particularly bearing in mind unintended consequences
- Delegates identified a list of requests for Defra/Ofgem:
 - Publication of scores for measures by the end of 2006 (with the possible inclusion of a 2-3% margin for change)
 - Publication of the Ofgem spreadsheet used by the energy suppliers as soon as possible

- Consideration of 'phasing' of carry over through the life of EEC3 to help smooth peaks and troughs of work for the supply chain
- Consideration of the treatment in the Illustrative Mix of the 250,000 insulation installations brought forward from EEC3.
- Consideration of the inclusion of luminaries and A-rated boilers in the Illustrative Mix
- Consideration of an incentive for 'multiple measures' or a whole house approach

6. Further Issues

Additional matters that were raised during the meeting included:

- The enabling role of local authorities, as social housing providers, local delivery partners and regulators (e.g. of the Housing Health and Safety Rating System)
- Opportunities for suppliers to link EEC schemes into the Energy Performance Certificate regime
- Opportunities for linking with the Housing Health and Safety Rating System and Licensing of Houses in Multiple Occupation to unlock EEC funding for the private rented sector

It was recognised that tremendous progress has been made - in improving the energy efficiency of homes for Priority Group households, in growing the insulation industry from 100,000 to 400,000 installations and in building agreement across the energy efficiency industry in some areas.

Defra were recognised for their work on the transition from EEC2 to EEC3. The early announcement of significant information has helped to provide clarity for the energy efficiency industries and the clear consultation process over the next 18 months provides industry with ongoing opportunities to contribute to the development of EEC3.