



# **Certificate Trading for the UK's Energy Efficiency Commitment**

John Costyn  
Ofgem

# The Energy Efficiency Commitment 2002-05

- Ofgem's Statutory Duties
- Roles of the key players in the EEC
- Key issues

# Principal objective:

To protect the interests of consumers, wherever appropriate by promoting effective competition ('consumers' includes both existing and future consumers)

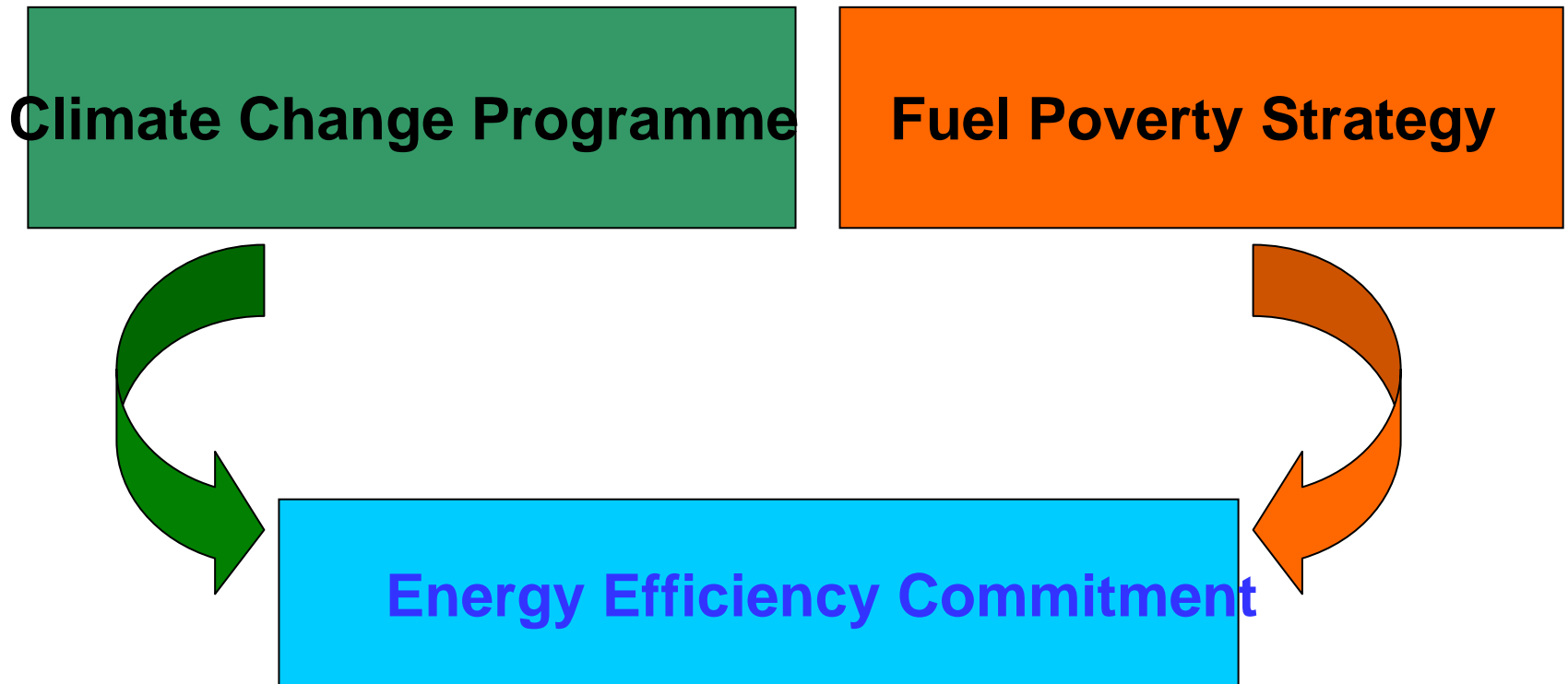
# Ofgem's main tasks

- Promote competition in all parts of the gas and electricity industries by creating the conditions which allow companies to compete fairly and which enable customers to make an informed choice between suppliers;
- Regulate areas of the gas and electricity industries where competition is not effective by setting price controls and standards to ensure customers get value for money and a reliable service.

# Executive functions

- Exemption for renewable energy from the Climate Change Levy
- Renewables Obligation
- Energy Efficiency Commitment

# Policy drivers for the EEC



# Roles of key players

- DEFRA
  - set overall target and policy
- Ofgem
  - administer and monitor compliance
- Suppliers with over 15,000 customers
  - target to achieve improvements in energy use



# Implementation

- Direct grants to consumers
- Partnerships with:
  - local authorities
  - landlords (especially social housing)
  - charities
  - retailers
  - other commercial organisations

# Key Issues for the EEC

- The energy saving target
- Flexibility in implementation
- Additionality
- Social focus (the “priority group”)
- Trading of energy savings

# The target

- 62 “terawatt hours of fuel weighted energy benefits”

[based on £3.60 (€5.90) / fuel / household]

# The scale of the EEC

- CO<sub>2</sub> saving of approximately 0.4 MtC per year

[Total UK CO<sub>2</sub> emissions about 150 MtC of which household emissions are 40 MtC]

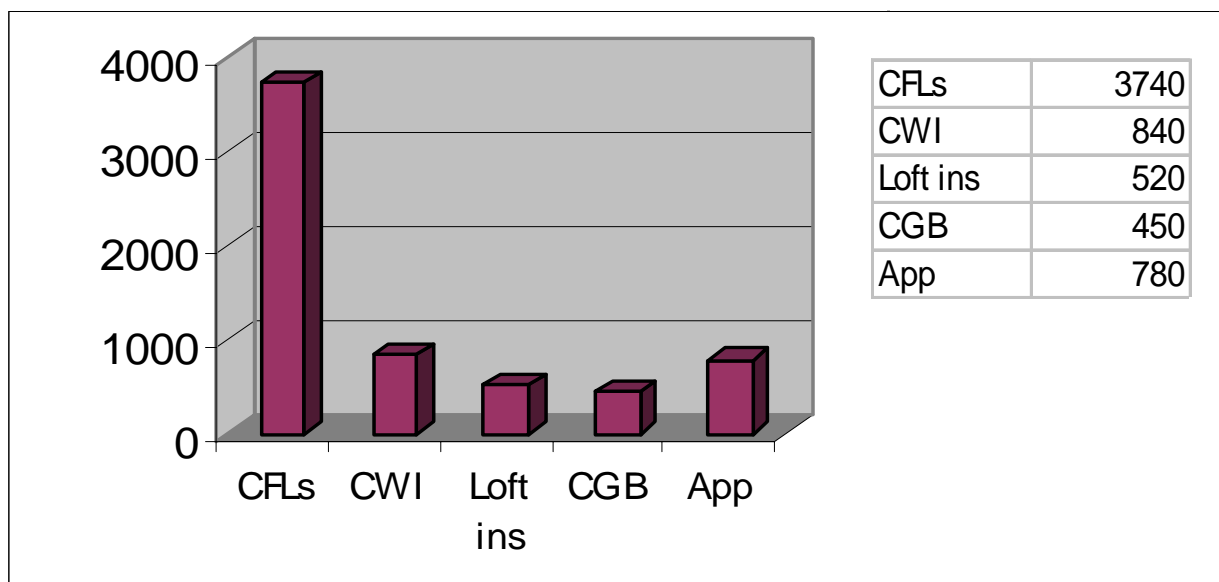
# The scale of the EEC

This would mean....

- >1,000,000 large scale insulation measures
- +>1,000,000 small scale insulation measures
- + 500,000 energy efficient boilers
- + 750,000 energy efficient appliances
- + 36 m low energy lamps (CFLs)

.... over 3 years

# Estimated energy efficiency installations under the EEC



Note: Levels of measures are in thousands, except CFLs which are in tens of thousands

# Allocation of targets

- Applies to all suppliers with over 15,000 customers

[11 suppliers, over 99% of the market]

- Progressive formula to assist new market entrants

Energy saving for each scheme is based on:

- standardised estimate according to technology
- weighted for fuel type (according to CO<sub>2</sub> emission)
- discounted over the estimated life of the measure



Energy Efficiency Commitment 2002-2005

Technical guidance manual Issue 1 February 2002

[www.ofgem.gov.uk](http://www.ofgem.gov.uk)

# Flexibility

- suppliers accredited for savings in all fossil fuels
- target means suppliers can take least-cost approach to implementation
- implementation through energy services arrangements
- contracting-out and collaborative arrangements
- trading

# Additionality

- Assessment for additionality is part of the assessment process undertaken by Ofgem
- Suppliers must demonstrate that work is beyond business as usual

# Social Focus

- 50% of savings must be secured from the “priority group”
- “Priority group” includes all households in receipt of income related benefits or tax credits
- “Priority group” includes about 40% of households

# Trading in the EEC

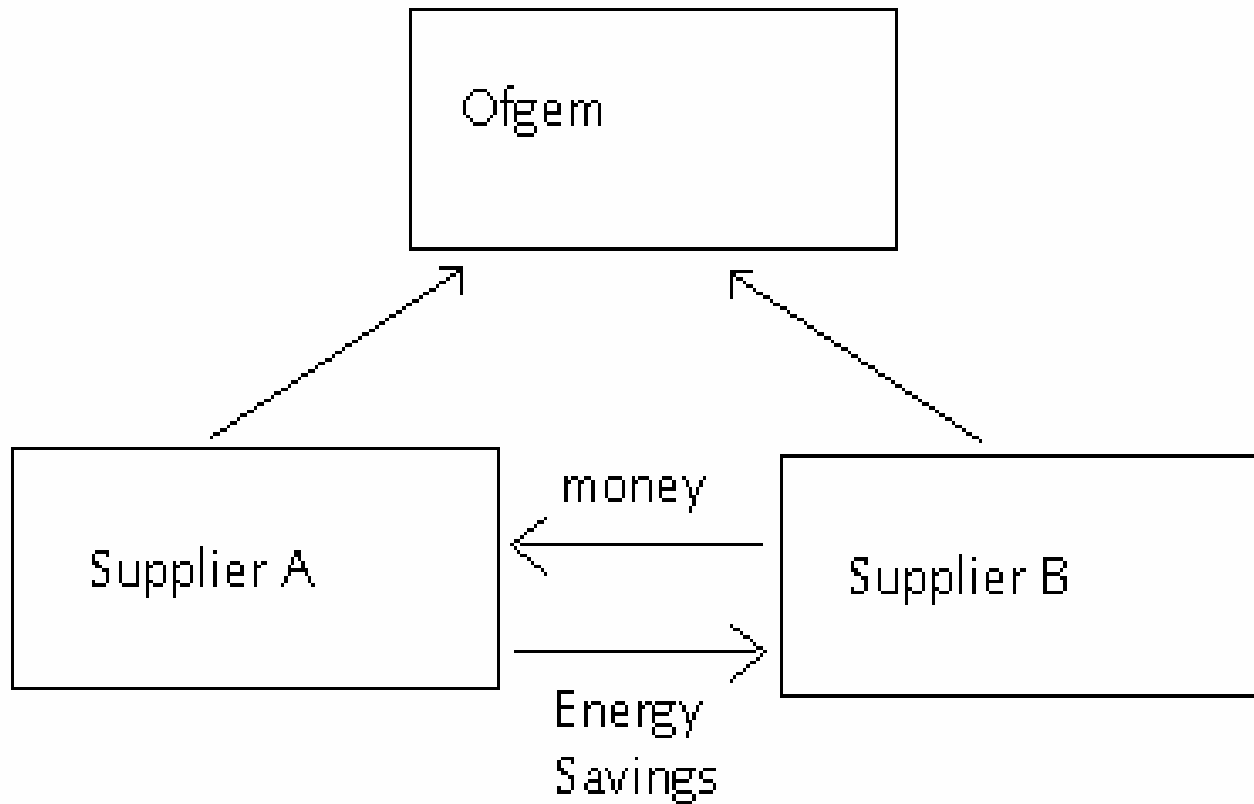
3 possible routes:

- Trading of energy savings
- Trading of obligations
- Trading of carbon onto the National Emissions Trading scheme

# Trading of Energy Savings

- Suppliers can trade energy savings from the energy efficiency measures already completed
- Energy efficiency measures will be transferred from one supplier to another
- All trades will have to be approved by Ofgem

# Trading of Energy Savings

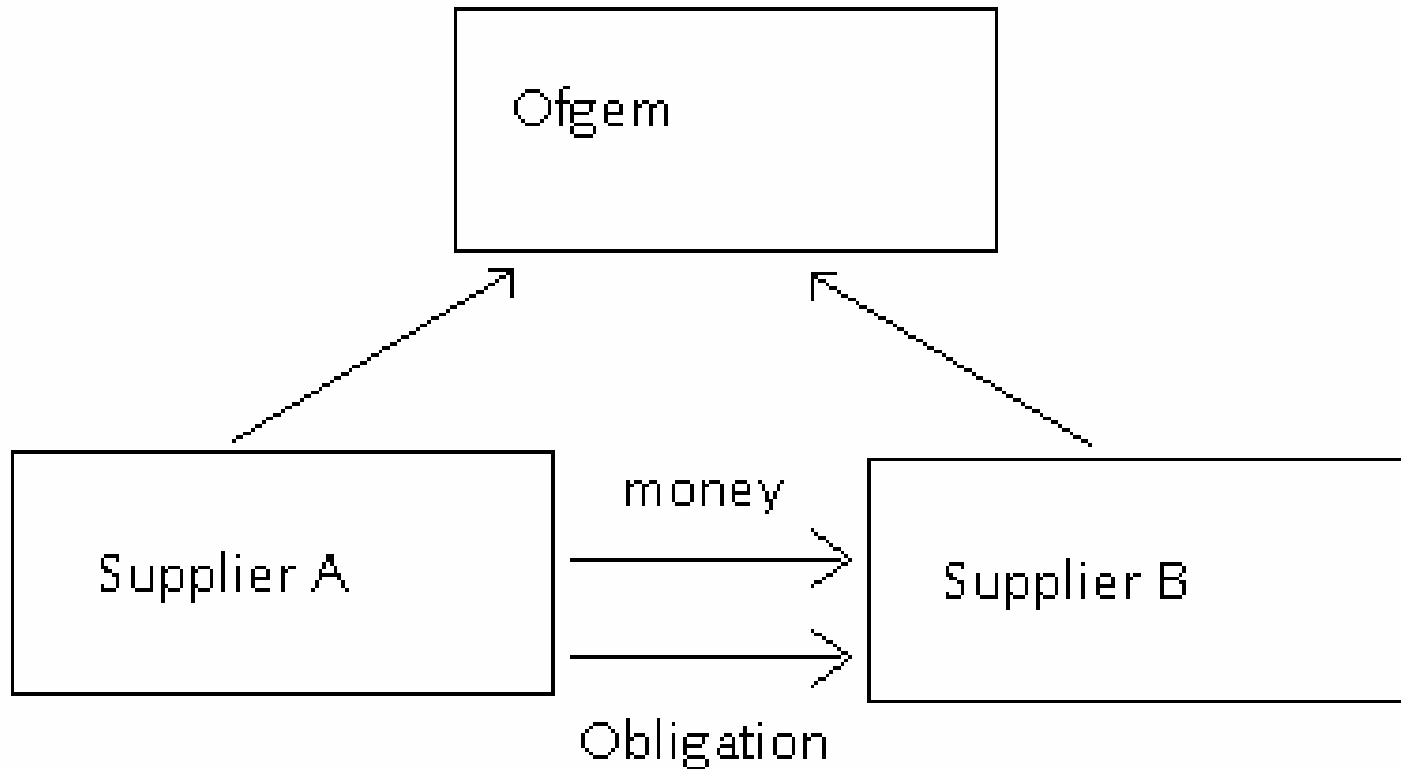


# Trading of Obligations

- Suppliers can trade their obligations, one supplier can pay another supplier to meet all or part of their target
- One supplier's target will increase while another's will decrease
- All trades need to be approved by Ofgem



# Trading of Obligations



# National Emissions Trading Scheme

- The UK Emissions Trading scheme began in April 2002
- Suppliers will be able to trade carbon savings onto this scheme
- Mechanisms to convert energy savings to carbon are still to be finalised **i.e. certification issue**
- One-way trading (no trading in)

# Conclusions

- EEC involves considerable advances in flexibility over previous schemes
- Flexible implementation should maximise benefits and reduce costs
- Not yet a “certificate” based scheme - but the design of the scheme means much of the groundwork has been done

# The Future

- Development of standardised unit for ETS trading
- Common currency in MtC
- Links with other obligations [Renewables, CHP, non-domestic]?
- Links into European emissions trading, Kyoto mechanisms, etc?

# Contacts/links

Ofgem: ([www.ofgem.gov.uk](http://www.ofgem.gov.uk))

- John Costyn (Head Environmental Action Plan) [john.costyn@ofgem.gov.uk](mailto:john.costyn@ofgem.gov.uk)
- Charles Hargreaves (Head Energy Efficiency) [charles.hargreaves @ofgem.gov.uk](mailto:charles.hargreaves@ofgem.gov.uk)

[www.ofgem.gov.uk/projects/energyeff\\_index.htm](http://www.ofgem.gov.uk/projects/energyeff_index.htm)

# Contacts/links

- Department for Environment, Food and Rural Affairs ([www.defra.gov.uk/environment/energy/index.htm](http://www.defra.gov.uk/environment/energy/index.htm))
- Energy Saving Trust ([www.est.org.uk](http://www.est.org.uk))
- The Carbon Trust ([www.thecarbontrust.co.uk](http://www.thecarbontrust.co.uk))

