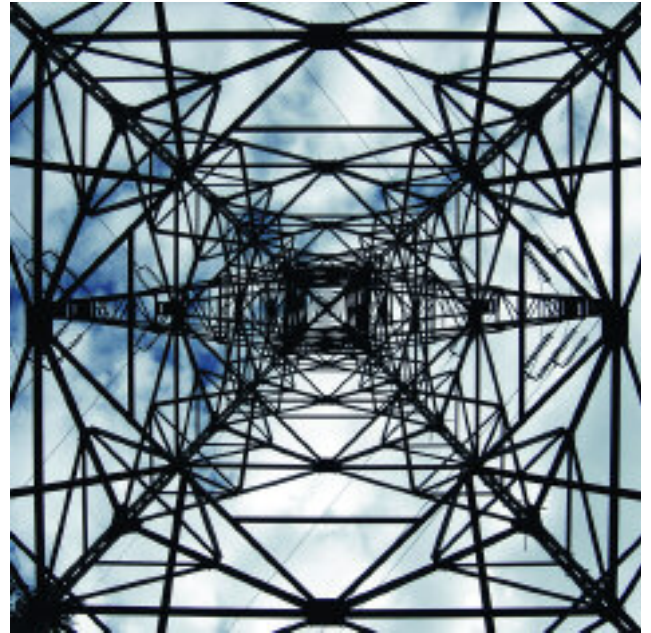


ENERGY EFFICIENCY COMMITMENT 2005-08



This Guidance sets out how the Office of Gas and Electricity Markets (Ofgem) will fulfil its duties under the Electricity and Gas (Energy Efficiency Obligations) Order 2004. The procedures define how Ofgem will approve suppliers' actions under the Energy Efficiency Obligations, determine the improvements in energy efficiency to be attributed to completed qualifying actions and regularly monitor suppliers' progress in meeting their targets.

This Guidance is a combination of the Administration Procedures for the Energy Efficiency Commitment (EEC) 2005-08, published in December 2004, and the Administration Procedures Supplementary Guidance document, published in November 2005. It supersedes them both.

The EEC 2005-08 follows on from the EEC 2002-05 and requires gas and electricity suppliers to achieve targets for the promotion of improvements in domestic energy efficiency. The Electricity and Gas (Energy Efficiency Obligations) Order 2004 provides the statutory basis for the EEC, setting out the overall energy efficiency target of 130 terawatt hours (TWh) to be achieved between 1 April 2005 and 31 March 2008.

This Guidance sets out how Ofgem will fulfil its duties under the Order, including setting suppliers' targets, approving their schemes, determining the improvements in energy efficiency resulting from those actions and, where necessary, enforcing compliance with the requirements of the Order.

Under the Order Ofgem is required to:

- determine each supplier's energy efficiency target
- approve an action notified by a supplier where Ofgem is satisfied that the notified action would promote an improvement in energy efficiency in relation to domestic consumers
- estimate what improvement in energy efficiency would be attributable to the action referred to above
- determine whether a completed action has promoted an improvement in energy efficiency and, if so, determine the amount of an improvement that Ofgem is satisfied will be achieved in relation to domestic consumers in the Priority Group
- attribute an improvement of 50% more than it would otherwise have done so for energy service action or an innovative action
- report to the Secretary of State each year, and
- enforce compliance with the requirements of the Order where appropriate

Also, the Order allows Ofgem to:

- alter a supplier's energy efficiency target
- agree to the whole or part of a supplier's target being achieved by qualifying action taken by another supplier, and
- agree to the whole or part of a supplier's target being transferred to another supplier

Ofgem has also produced a Technical Guidance Manual which sets out the relevant technical standards that need to be met when installing or delivering energy efficiency measures for there to be an improvement for the purposes of the Order. It also details how Ofgem will quantify the improvement in energy efficiency for the purpose of its determinations. Both the Administration Procedures and the Technical Guidance Manual are working documents and will be subject to review and updating where necessary.

The Order provides an incentive for suppliers to deliver actions that are innovative. Part of the definition of an 'innovative action' in the Order is that it is a qualifying action which achieves an improvement in energy efficiency which Ofgem is satisfied is significantly greater than that achieved by any similar action determined as a qualifying action under the EEC 2002-05. Ofgem finalised the procedures for determining innovative action in November 2005. This document is available on Ofgem's website, www.ofgem.gov.uk

Ofgem has developed a number of tools for administration, which are available on Ofgem's website and have been provided to the obligated suppliers for the purpose of demonstrating compliance.

These are the:

- EEC Scheme Spreadsheet
- Notification Proforma
- Quarterly Progress Report
- Combined Heat and Power (CHP) Spreadsheet
- Energy Savings Matrix

THE OVERALL ENERGY EFFICIENCY TARGET

Article 2 of the Order states that the overall target for the promotion of improvements in energy efficiency in relation to domestic consumers for the period 1 April 2005 to 31 March 2008 is 130 fuel-standardised, lifetime-discounted TWh.

To comply with its energy efficiency obligation, a supplier must achieve the latest energy efficiency target determined for it by the Authority by 31 March 2008. Article 3 states that a supplier's energy efficiency target must be met by improvements in energy efficiency attributable to qualifying actions, and that at least 50% of the total improvement in energy efficiency attributed to those actions must be achieved in relation to the Priority Group.

Article 4(1) requires Ofgem to determine an energy efficiency target to be achieved by a supplier if it is a supplier on 31 December 2004, 31 December 2005 or 31 December 2006. These targets apply from the following 1 April in each case. Ofgem may also alter a target with effect from 1 April 2006 or 1 April 2007.

A supplier's energy efficiency target shall be determined or altered by reference to the following criteria in Article 4(2):

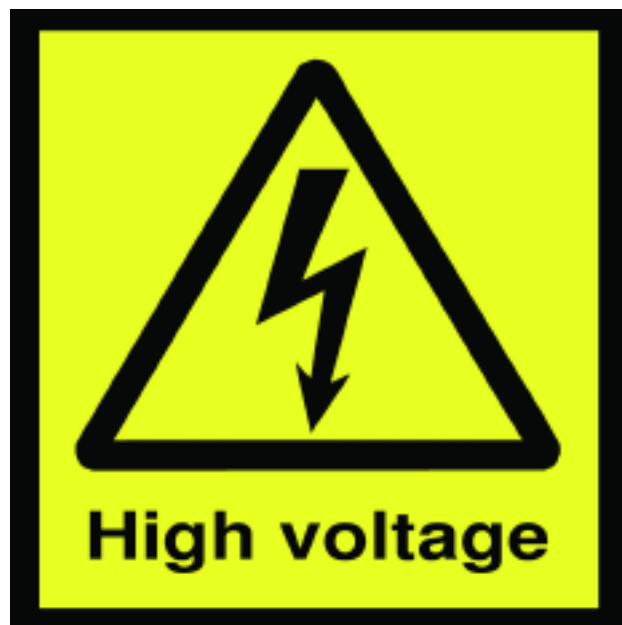
- the overall target of 130TWh
- the mean of the total number of domestic customers supplied by suppliers on 31 December 2004 and on any anniversary of that date
- the mean of the number of domestic customers supplied by that supplier on 31 December 2004 and on any anniversary of that date, and
- the time available for its achievement

SUPPLIERS' ACTIONS

Article 3 of the Order states that a supplier's target must be met by improvements in energy efficiency attributable to qualifying actions, where at least 50% of the total improvement in energy efficiency attributed to those actions is achieved in relation to the Priority Group.

Article 5(2)(a) requires a supplier to notify Ofgem of action which it intends to take to qualify for the purpose of meeting the whole or part of its energy efficiency target. The supplier must also indicate how the action will contribute, if at all, to the Priority Group requirement. Such notification must be made either before the action or 'scheme' is started, or within one month of commencement. The format for this notification is set out below.

Article 5(1)(a) requires Ofgem to approve an action that a supplier has notified to it under Article 5(2)(a) if it is satisfied that the action would



promote an improvement in energy efficiency in relation to domestic consumers. Ofgem will estimate the improvement in energy efficiency that would be attributable to that action if carried out as notified.

Should an action not be taken as approved, the supplier must again notify Ofgem under Article 5(2)(a), within one month of the change commencing. Ofgem will then assess whether the approval must be reconsidered.

Ofgem will consider a change to be something that requires a change to the Scheme Notification proforma – for example, proposals to change the promotion and delivery of Compact Fluorescent Lamps (CFLs) and appliances, proposals to add another measure type or heating type, or proposals to work with another manufacturer or retailer.

FORMAT FOR NOTIFICATIONS OF INTENDED ACTIONS

Under Article 5(2)(a), suppliers must provide notifications of actions they intend to take to meet their obligations. Notifications must be in writing, ideally in an electronic format and emailed to eec@ofgem.gov.uk

Notifications under Article 5(2)(a) should consist of two proformas which have been made available to suppliers. The first proforma is the EEC Scheme Spreadsheet which details the improvement in energy efficiency (also known as 'energy savings') attributable to the standard energy efficiency measures. Suppliers should use the EEC Scheme Spreadsheet to indicate which measures, and how many, they propose to deliver. Ofgem will use this information to estimate the improvement in energy efficiency attributable to the notified action. The second proforma is the EEC Scheme Notification proforma. This provides the format for a written description of the proposed action and how the improvement in energy efficiency resulting from the action may be achieved in relation to the Priority Group.

Suppliers are required to give each of their actions a unique code to enable Ofgem to monitor them.

If all the relevant information has not been provided to Ofgem, the notification will not be considered to be complete and Ofgem will be unable to approve the notified action.

Once Ofgem is satisfied that a notified action would promote an improvement in energy efficiency, the supplier should send a signed letter of authorisation to confirm that the action will be taken as notified. Ofgem will then approve the proposed action. Suppliers are required to provide Ofgem with a list of authorised signatories for this purpose.

TIMESCALES FOR NOTIFICATIONS OF INTENDED ACTIONS

Suppliers are invited to begin providing notifications of the actions they intend to take under Article 5(2)(a) from 3 January 2005.

CARRYING FORWARD ENERGY SAVINGS FROM THE EEC 2002-05

Article 5(3) makes provision for action taken by a supplier during April 2002 to March 2005, which is surplus to its target under the Electricity and Gas (Energy Efficiency Obligations) Order 2001 ('the 2001 Order'), to be counted towards its target under the Order, provided such actions were notified to Ofgem before 1 May 2005.

The 2001 Order required each supplier to meet its target by 31 March 2005. Ofgem's Administration Procedures for the 2001 Order required suppliers to submit their scheme completion reports by 30 April 2005. These completion reports detailed all of the measures delivered, and indicated those actions the supplier carried over.

To assess whether a supplier had met its target under the 2001 Order, Ofgem determined the improvements in energy efficiency to be attributed to the supplier's total approved activity and determined whether at least 50% of these improvements had been achieved in relation to the Priority Group. Where this requirement was satisfied, Ofgem determined that the action taken by the supplier was a qualifying action under the 2001 Order.

Following this process Ofgem decided whether, and to what extent, each supplier exceeded its target under the 2001 Order. The suppliers identified which of the measures installed between April 2002 and March 2005 were in excess of their target. Ofgem then determined what improvement in energy efficiency was to be attributed to the action, under article 5(1)(b) of the EEC 2005-08 Order.

TRANSFERS

Transferring qualifying action

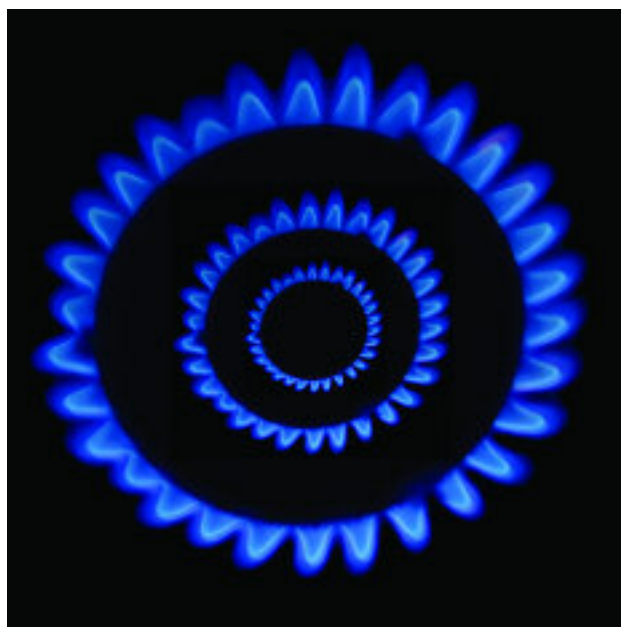
Under Article 7(a) of the Order, Ofgem may agree to the whole or part of a supplier's energy efficiency target being treated as having been achieved by a qualifying action that has been taken by another supplier. Suppliers wishing to transfer qualifying action must make a written request to Ofgem after the action that is the subject of the request has been completed and notified under Article 5(2)(b).

Transferring targets

Under Article 7(b), Ofgem may agree to the whole or part of a supplier's energy efficiency target being transferred to another supplier. Suppliers wishing to make such a transfer must make a written request to Ofgem. If it agrees the transfer, Ofgem will add the whole or part of the target to the transferee's existing target.

**FIGURE 1:
SCHEDULE FOR QUARTERLY PROGRESS REPORTS**

Quarter	Ofgem provides the proforma to suppliers by	Suppliers return the completed proforma by
3 Jan – 30 Jun 2005	28 Jun 2005	11 Jul 2005
1 Jul – 30 Sep 2005	28 Sep 2005	11 Oct 2005
1 Oct – 31 Dec 2005	29 Dec 2005	11 Jan 2006
1 Jan – 31 Mar 2006	29 Mar 2006	1 Apr 2006
1 Apr – 30 Jun 2006	28 Jun 2006	10 Jul 2006
1 Jul – 30 Sep 2006	28 Sep 2006	10 Oct 2006
1 Oct – 31 Dec 2006	27 Dec 2006	10 Jan 2007
1 Jan – 31 Mar 2007	29 Mar 2007	10 Apr 2007
1 Apr – 30 Jun 2007	28 Jun 2007	10 Jul 2007
1 Jul – 30 Sep 2007	27 Sep 2007	9 Oct 2007
1 Oct – 31 Dec 2007	27 Dec 2007	10 Jan 2008
1 Jan – 31 Mar 2008	27 Mar 2008	9 Apr 2008



Ofgem will consider requests on a case-by-case basis. However, it will consider it reasonable to withhold agreement where a transfer would result in a supplier being likely to contravene the requirement placed on it in the Order to meet its obligation.

REPORTING

Under Article 9, Ofgem is required to report to the Secretary of State annually on the progress made by each supplier towards complying with its energy efficiency obligation and the progress made towards achieving the overall target of 130TWh.

In order to report to the Secretary of State annually, under the monitoring provisions in Article 8, Ofgem requires suppliers to submit quarterly progress reports on its actions. Suppliers should provide information relating to the achieved and forecast improvements in energy efficiency for each of their actions which have been approved under Article 5(1)(a). Suppliers should also state the cumulative number of properties which have received cavity wall insulation and loft insulation each quarter. Ofgem will accept estimates of the number of installations.

The Quarterly Progress Report proforma will be circulated by Ofgem and suppliers will be required to complete it and submit it by the dates provided in Figure 1.

Ofgem will also use the information collected from the quarterly progress reports to produce the EEC Update newsletter. This will be published on Ofgem's website each quarter.

Ofgem considers it important that suppliers make information available to their customers on their progress in meeting their targets. Therefore, suppliers are encouraged to publish reports on their progress towards complying with their energy efficiency obligations.

This Guidance, including all appendices, is available in full at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/18445_15_Integrated_Admin_Procedures_final.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/energyefficiency

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