

Sustainable Development - The Regulator's Role

Submission from the ENERGY SAVING TRUST July 2008

Introduction

This is the submission of the Energy Saving Trust to the Utility Regulator's consultation on how the Regulator can best contribute to sustainable development. Thank you for giving us the opportunity to respond.

The Energy Saving Trust was established as part of the Government's action plan in response to the 1992 Earth Summit in Rio de Janeiro, which addressed worldwide concerns on sustainable development issues. We are the UK's leading organisation working through partnerships towards the sustainable and efficient use of energy by households, communities and the road transport sector and one of the key delivery agents for the Government's climate change objectives.

The Energy Saving Trust has offices in each of the countries in the UK, and has had a dedicated office in NI since 1996. We operate a number of programmes (modified for local conditions) in NI which play a key role in delivering the UK and NI's climate change objectives. This includes the NI Energy Saving Trust advice centre (ESTac), which provides a 'One-Stop-Shop' to provide advice and support on energy efficiency, renewables and road transport for householders in NI. Last year the Centre provided advice to 77,900 individuals in NI, facilitating the (lifetime) saving of 130,000tC. And, as you know, we also developed the framework for the operation of the Energy Efficiency Levy (EEL), and we evaluate all projects submitted under the EEL and provide technical advice to assist in project development. Please note that this response does not necessarily represent the view of Energy Saving Trust members.

Chapter 1

1.1 Respondents to the consultation are asked to comment on whether or not they think any of the proposals in this paper would impact on equality of opportunity or good relations for any of the Section 75 Groups.

No comment.

Chapter 3

3.1 Respondents are asked to comment on the balance between present and future climate change costs.

The Stern review is the most comprehensive analysis of the costs of climate change that we are aware of. As the consultation notes this review set out in detail how economic and social costs of climate change will mount over the coming century. It concluded that stabilising greenhouse gas concentrations in the atmosphere and avoiding dangerous warming was not only possible at a cost of 1 per cent of global GDP, but that it is an investment with benefits that will far outweigh the costs.

3.2 Respondents are asked to give their views on the relationship between sustainability and security and diversity of supply.

The Energy Saving Trust's expertise lies in household energy efficiency, microgeneration, and road transport. Of relevance to this consultation, and to this particular question are the first two areas – household energy efficiency and microgeneration.

Improving household energy performance through the installation of both energy efficiency and microgeneration technologies results in reduced carbon emissions and as such plays a key role in delivering environmental sustainability. These actions also improve security and diversity of supply. In particular, energy efficiency helps improve security of supply by reducing the demand for primary energy, and hence dependence on supply side investment and energy imports. Microgeneration can enhance security of supply through fuel and location diversity.

Thus, actions to improve sustainability can also improve security and diversity of supply.

3.3 Respondents are asked to give their views on the degree to which sustainability issues should drive the Utility Regulator's first NI water price review.

No comment (question relates to water industry and is therefore outside our remit)

3.4 Respondents are asked to consider whether a monetary value of CO₂ equivalent or shadow price of carbon ought to be included within guidance on use of business cases.

No comment (question relates to water industry and is therefore outside our remit)

3.5 Respondents are asked to indicate their preference for inclusion of "carbon footprint" monitoring and target setting within the new regulatory contract at the first NIW price review.

No comment (question relates to water industry and is therefore outside our remit)

3.6 Respondents are asked to consider the benefits of going beyond the "Economic Level of Leakage", possibly by the inclusion of the carbon shadow price in calculations.

No comment (question relates to water industry and is therefore outside our remit)

3.7 Respondents are asked to consider the degree to which NIW should be incentivised to increase its uptake of renewable energy and reduce its non-CO₂ gas emissions and mechanisms by which this might be achieved.

No comment (question relates to water industry and is therefore outside our remit)

Chapter 4

4.1 Respondents are asked to rate the following existing instruments from 1-10 (1 being poor 10 being excellent) for the following characteristics:

- A Profile (do enough people know about the work)**
- B Ability to protect customers**
- C Ability to influence consumers to be more energy / water efficient or change to a lower carbon fuel**

Our comments here are limited to the specific instruments that we have involvement with, and where research has been undertaken to quantify their impact. If we were to attribute a score of between 1 and 10 to the various aspects of these instruments (for example their ability to influence) this would represent a very subjective and probably unreliable judgement. For this reason we only comment on areas where consumer research is available.

Energy Efficiency Advice Provision

ESTac in NI

Profile: Our consumer research indicates that 31% of households in NI are aware of the Energy Saving Trust.

Ability to protect customers: If consumers act on the advice provided by our ESTac in NI and install either energy efficiency or microgeneration measures this will mean that they are, at least to some extent, protected from current high energy prices, and from future price rises.

Ability to influence: Last year the Centre provided advice to 77,900 individuals in NI, facilitating the (lifetime) saving of 130,000tC. In the previous year (2006/07) the ESTac engaged with 59,800 consumers with 38% of those taking action as a direct result of receiving this advice (Evaluation is not yet complete for 2007/08 so unable to provide percentage at this time). This compares very well to conversion rates (from advice to action) in other parts of the UK.

EEL

We are not aware of any research that has been undertaken to establish the profile of the EEL or its ability to influence. However, the EEL schemes are actively promoted by our ESTac which provides a 'One-Stop-Shop' for consumers in NI.

Measure	Profile	Ability to protect customers	Ability to influence
<p>The NIE SMART Programme</p> <p>Gas Industry Promotion</p> <p>The Energy Efficiency Levy</p> <p>Price Controls</p> <p>Key Pad Metering</p> <p>Energy Efficiency Advice Provision</p> <p>NIW Sustainability Report</p> <p>NIW Environment Management System</p> <p>NIW promotion of water efficiency</p>	<p>See above</p> <p>See above</p>		

Chapter 5
5.1 Respondents are asked to comment on the balance of the Utility Regulator's duty to protect present and future customers.
<p>We believe that the Utility Regulator has an important role to play in protecting both present and future customers.</p> <p>However, we do not believe it would be appropriate, at this stage, to extend NIAUR's remit to cover the delivery of green house gas reductions. And while we support a significant number of recommendations in the SDC report '<i>Lost in Transmission: The role of Ofgem in a changing climate</i>', we note that these were based on a considerable amount of rigorous GB-only research. It is unclear whether, if equivalent research was carried out in NI, the conclusions would be the same, and as such we believe it may be appropriate to undertake NI-specific research on this issue.</p> <p>We do however have some concerns about the Regulator's remit in relation to the promotion gas. The existing duty to '<i>promote the development and maintenance of an efficient, economic and co-ordinated gas industry in NI</i>' is arguably detrimental to the promotion of other fuels (and other means of generating heat – which might be far less carbon intensive than gas, e.g. biomass, and ground and air source heat pumps) for which there is no requirement to promote.</p>
5.2 Respondents are asked to comment on the appropriate role of and nature of statutory guidance from Ministers to the Utility Regulator.
<p>We believe that statutory guidance from Ministers to the Utility Regulator could be appropriate in terms of linking NIAUR's work into wider policy.</p>
5.3 Respondents are asked to highlight actions that they consider might be appropriate or necessary, but that could not be taken under the Utility Regulator's existing powers.
<p>As noted in our response to question 5.1 we believe that the Regulator could do more to promote low-carbon and renewable heat. However, its current remit impedes this happening.</p>
5.4 Respondents are asked to comment on whether the Utility Regulator should seek to be designated under section 25 (1) of the Northern Ireland (Miscellaneous Provisions) Act 2006.
<p>Intuitively this would seem sensible. However, like NIAUR we are unclear what practical difference such a designation might make. We do not believe that this is a reason for this not to happen, and would recommend, if the consultation does not generate sufficient insight into the practical implications of this, further research be undertaken on this issue.</p>
Chapter 6
6.1 Respondents are asked to comment on the three main roles for the Utility Regulator identified in chapter 6 of this paper as:
<ul style="list-style-type: none"> • gathering and publishing evidence, • contributing to wider energy policy, • regulating differently.
<p>We agree with the key roles identified for the Utility Regulator. Our comments on the first role – gathering and publishing evidence – are outlined below in our response to</p>

question 6.2 and our thoughts on the third are outlined in our response to question 5.1 above and question 6.5 below.

6.2 Respondents are asked to comment on data, which would be useful but, which is currently unavailable on a regular basis in Northern Ireland.

We would very much welcome the provision of the types of data listed in the consultation document, namely:

- annual breakdown of NI's total energy consumption by source and sector, and energy type.
- more frequent and detailed information on average energy prices by energy type and sector together with comparisons between NI and other regions
- above information broken down geographical areas of NI.
- possibly collecting more information from licence holders on uptake of different types of meter and average consumption per type of meter.

For example, if we were able to start getting energy consumption data (at Province and household level) and also fuel price data we would be able to work up NI specific savings – something we do not currently have the data to be able to do. It would also provide a clear indication of how people are using their energy over time.

6.3 Respondents are asked to suggest innovative methods of developing and promoting the gas industry as a means of reducing Northern Ireland's carbon footprint.

We believe it is important to promote gas as a means of reducing NI's carbon footprint in a holistic way – such that gas is seen as part of wider package and not in isolation. For example consumers should be advised at the same time about other simple and cost effective steps they can take to further reduce their carbon emissions. This would: a) optimise the carbon saving potential of any marketing regime, b) ensure that consumers were able to consider the carbon impact of their home as a whole and c) reduce consumer confusion by ensuring a holistic carbon reduction message. We believe there is considerable scope to link energy efficiency programmes with the roll out of the gas network in NI. We have already started to make progress in this area, for example Firmus and Phoenix signpost customers to our ESTac number, and look forward to building stronger links with the gas suppliers over the coming months and years.

6.4 Respondents are asked how the solid fuel and oil industries could contribute to social and environmental sustainability? In addition what approach will best achieve this aim?

We believe that the solid fuel and oil industries could contribute to social and environmental sustainability through the imposition of a levy broadly equivalent to the EEL for electricity customers. Given the considerable number of oil suppliers in NI we believe that it may be easier to capture such a levy upstream (i.e. to be collected by oil importers). Although we recognise that it is unclear whether this would be feasible as oil duties are levied by a different mechanism which NIAUR has no jurisdiction over.

6.5 Respondents are asked if the regulatory model used to develop the natural gas network could provide lessons for the promotion of efficient and coordinated heat networks? Do respondents believe that better regulation could aid the development of the community heat industry?

As noted in our response to question 5.1 above we believe that the existing duty to 'promote the development and maintenance of an efficient, economic and co-ordinated gas industry in NI' is arguably detrimental to the promotion of other fuels (and means of generating heat – which might be far less carbon intensive than gas, e.g. biomass, and ground and source heat pumps) for which there is no requirement to promote. In this context we believe that extending the regulator's remit to include heat could be useful, and that better regulation could aid the development of the community heat industry.

Chapter 7

7.1 The Utility Regulator considers that the following are important when assessing policy proposals. Respondents are asked to score each of the proposals in chapter 7 of this document from 1-10 on the basis of their potential in relation to the following measures:

- 1 Potential Certainty of Outcome**
- 2 Potential Cost effectiveness**
- 3 Certainty for investors**
- 4 Potential to provide equity for consumers**
- 5 Potential to encourage innovation**
- 6 Good fit with other NI government departments**
- 7 Good fit with competitive energy markets**

The proposals are summarised as follows:

	1	2	3	4	5	6	7
a. Cross utility licence condition requiring licensees to have in place environmental policies.	Note: See our response to question 7.2 below.						
b. Cross utility requirement to report annually of sustainability activities and initiatives.							
c. Requirements on licence holders to provide customers with environmental information in relation to fuel mix in a uniform and easy to understand format, on all bills and promotional literature.							

d. Strategic investigation into use of “Smart Meters” as a mechanism for delivering better quality and timely information to customers.							
e. Work with energy licence holders to assess current tariff structures.							
f. Continue to work with partners and stakeholders to ensure renewable generation can be equitably accommodated on the electricity network.							
	1	2	3	4	5	6	7
g. Ensure price control processes take into consideration the effect of climate change on electricity and gas networks.							
h. Carry out a full strategic review of energy efficiency delivery mechanisms							
i. Develop a strategy in relation to gas promotion, which considers the potential benefits of common arrangements for the transmission and distribution of gas on the island of Ireland.							
j. Developing sustainability within the NIW price control							
k. Improving our own practices and procedures.							
7.2 Respondents are asked to identify what they consider to be the top three priorities from the above list of proposals and rank them in order of importance.							
If we were to attribute a score of between 1 and 10 to the various aspects of these proposals this would represent a judgement based on our views as an organisation with a specific interest in the sustainable and efficient use of energy in the household sector and as such would perhaps represent a rather biased perspective.							

7.3 Respondents are asked to list any further proposals which they think should be considered.

We believe that NIAUR needs to consider its role in relation to green tariffs in NI. As the electricity market opens up in NI, and more suppliers begin to offer green tariffs it will be important to ensure that this does not lead to consumer confusion and that consumers are clear about what constitutes a green tariff. We strongly believe that green tariffs should be additional (i.e. they should result in renewable generation that is additional to what would have happened anyway).

Consumer perspective

With the main driver for growth in the market being the NI Renewables Obligation, it is important that consumers understand the contribution they are making when they sign up to a green tariff. Many customers will expect that, by signing up to a green tariff, they are being supplied with 100% renewable electricity, or are otherwise directly leading to additional renewable generation. In reality, though, it is not always clear what the real benefit of a green tariff is, and suppliers use a variety of means of claiming 'greenness'.

When asked, 71% of consumers said they would like to see green tariffs offered by their supplier. Nearly 50% stated that they would be prepared to pay more for their electricity to ensure energy comes from renewable energy sources. The Energy Saving Trust's own research¹ shows that over one third of all households were interested in signing up to a green tariff, once the concept had been explained to them.

The current situation in GB

A consultation 'Cutting the green customer confusion - next steps' was carried out over Christmas 2007 by Ofgem and responses were submitted in January.

In January 2007, Ofgem received the draft final report from the deliberative forums which Ipsos MORI² were commissioned to undertake. Following consideration of the feedback received across this process, Ofgem decided to delay publication of the guidelines in order to "further develop elements of the guidelines, particularly in respect of the 'additionality' aspects".

Ofgem commissioned an independent environmental consultant to look at additionality.

On 16 July 2008, Ofgem published their consultation on the guidelines for Green tariffs. The Energy Saving Trust is very concerned about Ofgem's proposals for the following reasons:

1. It is **misleading** consumers who believe they are buying into 'additional' **renewable energy**. In effect, a study³ commissioned by Ofgem shows that 'for most, "green" in energy terms means the same thing as renewable energy'. The study goes on to say 'that most expect all of the electricity included in the tariff to be from renewable sources'. However, in the proposed guidelines, the tariffs would not automatically be linked to renewable energy nor contribute to more renewable energy

¹ Brand Attitude and Behaviour tracker, Drummond Madell for the Energy Saving Trust, April 2007.

² Consumers' Views on Renewable and Low Carbon Supply Tariffs, Ipsos MORI for Ofgem, January 2008.

³ Consumers' Views on Renewable and Low Carbon Supply Tariffs, Research Study conducted for Ofgem by Ipsos MRI, January 2008.

being generated in the UK, above and beyond 'business as usual' (i.e. obligations imposed on suppliers to produce a certain level of renewables through the Renewable Obligation). Consumers could be paying into a Green tariff but not getting any 'additional' renewable electricity for it. As such, Ofgem are taking the decision to deny customers the chance to use their buying power to demand and drive more investment in renewable energy.

In fact, what consumers would be paying for are other environmental and social measures like offsetting, contributions to environmental charities, energy efficiency measures, etc. Whilst we do recognise the benefits of these other environmental measures (and as long as these are above and beyond the company's CSR activities), we do not believe these have anything to do with a Green tariffs.

2. Lack of **transparency** – Ofgem is proposing that the suppliers will not need to provide information about the individual tariff but instead will only be required to provide an overall supplier fuel mix disclosure.

In the absence of a purely renewable scheme, transparency and clear information to consumers is essential so that consumers can easily compare tariffs and are not set to believe that they are buying into more renewables. The proposed set of information is not tariff specific! How can consumers know what they are buying? It is like if a supermarket was selling a range of sandwiches and on the labels for each sandwich, the only information provided would be the overall mix of ingredients in all of that supermarket's sandwiches. How can the consumer know if the sandwich he's picked up has nuts in it or not?

For further information about Ofgem's proposals please see: <http://www.ofgem.gov.uk/Sustainability/Environment/Policy/Documents1/Green%20supply%20guidelines%20-%20proposals%20July%2008.pdf>

Implications for NI

In this context we believe that this issue should be given greater consideration by NIAUR, and note that NI has significant potential to lead the UK in this area.

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31 Jul 08