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PROPOSED EC DIRECTIVE ON ENERGY END-USE EFFICIENCY AND ENERGY SERVICES

Dear Tom,

The Energy Retail Association welcomes the opportunity to comment on the above proposed European Commission directive.

Energy retailers in the UK have developed a range of options to promote energy efficiency in our homes. They are mandated to achieve energy savings through the Energy Efficiency Commitment and offer energy efficiency advice to all customers, with a particular focus on vulnerable groups. In many respects UK energy retailers have led the way and the Commission's proposals are in the wake of these initiatives.

However, the Commission fails to recognise the need to allow innovation. Our primary concern is that the Directive is too prescriptive and does not allow our members to innovate through its inflexibility.

Targets

We believe that the proposed methodology used by the Commission to set a cumulative 1% of energy savings is flawed and we urge HMG to resist mandatory targets for the following reasons:

- Any energy savings achieved through energy efficiency will not necessarily reduce carbon emissions, thereby contradicting the UK Kyoto obligations;
- The UK energy retail sector currently achieves carbon savings through energy efficiency measures in order to meet its Energy Efficiency Commitment targets (EEC). We would welcome assurances that EEC savings will count towards the cumulative 1% savings set out in the Directive;

- Furthermore, the UK currently meets the energy savings target because the Directive is retrospective to 1991 (to include Vehicle Excise Duties). The Commission recognises that EU states are at different stages of development;
- If this is the case the UK energy retail sector has already achieved its target savings. If not the Commission's proposals must be re-worked to be consistent with EEC. As it stands the Directive amounts to 1.5 x EEC targets.

Energy Services

We request that HMG seeks further clarification and takes note of the following points:

- UK energy retailers have already made it clear to HMG that only legislation, fiscal incentives or local government mandates will create a market for energy services within the privately owned sector;
- We have serious concerns about the installation industry's ability for growth at the levels required to achieve the targets were to fail to amend them;
- The Directive is not clear what is meant by companies will "offer and promote" energy services. This suggests that all energy companies should be able to offer customers an energy service. This would present barriers to new entrants to the energy market wishing to offer low prices through a no frills energy package but who are mandated to offer energy services and free audits;
- The requirement to demonstrate take up of energy services by 5% of customers per retailer is unrealistic because the pool of eligible customers likely to buy energy services is smaller than the total customer base;
- For example, pre-payment customers are not entitled to energy services, tenants in private rented accommodation will not buy energy services. Given the delay of up to ten years before energy services' benefits are realised, elderly householders and young people in starter homes are unlikely to buy energy services.

The ERA requires clarification on the definition of energy services as set out in the Directive. The current definition does not automatically lead to reduced consumption and, therefore, does not mean energy is saved.

Audits

The requirement for an "independent audit" means that retailers will need to pay an energy auditing firm to carry out free audits up until 5% of their customer base has taken up energy services. This is a huge cost for the largest retailers, which will be reflected in higher energy prices. In addition:

- Audits do not always lead to reduced energy consumption e.g. StayWarm schemes promote the use of more energy.
- The requirement to offer free energy audits does not guarantee take up of energy services. If the Directive intends this should also apply to industrial and commercial customers there will be cost implications for retailers.

Billing and Metering

The mandate to install meters that show consumption will not necessarily lead to a change in customer behaviour to make energy savings. Some assumptions have been made that do not reflect current billing procedures:

- The cost of fitting new meters is mostly incurred in processing the data supplied from the meter, rather than in installing the equipment;
- Bills that show energy consumption require massive IT investment and with 20% of customers switching every 3 months the data cannot be held with one supplier;
- Suppliers do not hold information about their customers' property characteristics, which means that comparisons cannot be made against a benchmark;
- Pre-payment customers would be excluded from the potential customer base for energy services because suppliers are not allowed to recover credit through meters. This makes the 5% of customers target even harder to achieve;
- The Association of Electricity Producers has advised us that problems were encountered during work on the Fuel Labelling Directive and all proposals to develop comparative consumption data were consequently rejected;
- DNOs are mandated to provide such data, but there is no interface with customers, so that this is not currently happening.

We support the thrust of the Commission's proposals, but do not believe the objectives of the Directive can be achieved as drafted. We hope that these points can be incorporated into the UK response to the Commission. The ERA is willing to act as co-ordinator for further liaison when the Commission's activity is reconvened and would welcome an opportunity to continue to work with Defra in preparing a submission.

Yours sincerely,

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