

Charles Hargreaves
Head of Energy Efficiency
Ofgem
9 Millbank
London
SW1P 3GE

Name Mike Lock
Phone 01905 340613
Fax 01905 340730
E-Mail mike.lock@npower.com

25th May 2005

The Energy Efficiency Commitment (2005 – 2008) Innovative Action – Consultation Proposals

Dear Charles

Please find attached RWE Npower plc (npower) response to the Energy Efficiency Commitment (2005-2008) Innovation Action Consultation Proposals. We are also happy for you to make this publicly available.

We look forward to further discussions with Ofgem to implement a workable EEC programme of energy savings targets.

Yours sincerely



Mike Lock
Energy Services Manager

Enc.

npower

Oak House
Bridgwater Road
Worcester WR4 9FP

T +44 (0)1905/34 05 21
F +44 (0)1905/34 04 88
I www.npower.com

Registered office:
Npower Limited
Windmill Hill Business
Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England
and Wales no. 3653277

Mike Lock
Energy Services Manager

The Energy Efficiency Commitment (2005-2008) Innovative Action – Response from RWE Npower plc to the Consultation Proposals

npower has welcomed the opportunity to contribute to the consultation proposal for Ofgem's Energy Efficiency Commitment (2005-2008) Innovative Action. Whilst npower recognises the complexity of achieving a robust and transparent mechanism in acknowledging EEC innovation, npower is concerned that the Innovative Action Proposals do not fully address the objectives of article 6(3)(b) of the Electricity and Gas (Energy Efficiency Obligations) Order 2004 ('the Order').

Innovation may be either incremental or radical in nature. Ofgem has recognised this in its approach to the application of article 6(3)(b)(i)(bb), choosing to, where possible state the threshold to be exceeded for certain types of action. However npower must question the subsequent prevalence of a 20% threshold across the range of energy efficiency technologies. There appears little recognition of the practical level of innovation required to achieve such a figure, particularly when comparing one technology classification to another.

It is npower's view that the Innovative Action uplift, whilst providing assistance to the development of new energy efficiency technologies, may fail to support new technologies in the early stages of market penetration. This is apparent in the case of solar thermal collectors, where comparison to alternative heating technologies and the use of the 20% threshold is detrimental to achieving Innovative Action.

Finally, npower wish for Ofgem to consider the bias that may occur should cogeneration units (as defined in Article 3(m) of the Directive 2004/8/EC) be eligible for an Innovative Action incentive, without the requirement to achieve the energy efficiency improvement threshold imposed on alternative heating technologies. It may be detrimental to the integrity of the EEC to incentivise a potentially inferior technology when alternative, and possibly more beneficial technologies are unable to qualify.

The following pages contain npower's comments to specific sections of the Ofgem Energy Efficiency Commitment (2005-2008) Innovative Action.

1. Introduction

- 1.4. npower support the principle of an incentive within the EEC for new technologies in the early stages of market penetration. The EEC programme is uniquely positioned to contribute directly to market transformation objectives as previously demonstrated by the inherent appliance uplift within the EEC 2002-2005.
- 1.5. & 1.6. npower is concerned that unnecessary allowances have been made for domestic Combined Heat and Power (dCHP). Whilst npower recognises the undoubted potential of the technology, its ability to deliver significant benefit to the end-user remains unsubstantiated. npower is concerned that dCHP technology occupies an envious position, in which it may qualify for an incentive without having to achieve the same level of energy efficiency improvement that alternative heating technologies are subject to.

npower strongly advocates the use of a robust and transparent accreditation process for dCHP technology within the EEC. It is essential to maintain impartiality across the range of energy efficient technologies.

2. Background

- 2.3. - 2.5. npower request further clarification on the algorithm that will determine a technologies eligibility under Innovative Action. At what point in the calculation, from annual energy savings (kWh/a) to lifetime-discounted, fuel standardised energy savings (GWh) will the improvement threshold be applied?
- 2.9. npower request confirmation that a definitive list of anonymous qualifying action will be circulated to energy suppliers once Ofgem has made the determination.

3. Rationale

- 3.5. npower support the decision not to apply a single percentage improvement for all types of action. Whilst many technologies have limiting characteristics in terms of effect, e.g. the heating, lighting, insulating or the powering of a domestic residence, the scope for improvement between technologies is considerably different and would fail to be taken into account if a single percentage approach were to be employed. It is therefore paradoxical that a 20% threshold is dominant throughout the Innovative Action Proposal.
- 3.6. npower fully support the requirement for clarity and transparency in the accreditation process for Innovative Action.
- 3.7. npower strongly supports the specified percentage improvement for each type of action as the most suitable mechanism for agreeing Innovative Action.
- 3.8. Innovation may be either incremental or radical in nature. Ofgem has recognised this in its approach listed in section 3.7, choosing to, where possible state the threshold to be exceeded for certain types of action. However npower must question the level and subsequent prevalence of a 20% threshold across the range of energy efficiency technologies. This appears to undermine the differential that exists between technologies to achieve a significant improvement.

5. Innovative Action

- 5.5. npower is concerned that the definition of similar, in terms of qualifying action, lacks specificity. This becomes apparent when comparing technologies using the assessment of application,

function and effect. Undoubtedly the filling of a cavity wall is limited in terms of variables other than material type. However, whilst solar thermal, heat pumps and condensing boilers achieve a similar effect (space and/or water heating) their functionality differs considerably. The proposed definition of similar may therefore result in unsuitable technologies being classified against an inappropriate threshold for a significantly greater improvement in energy efficiency.

- 5.11. npower understand the timescales involved, particularly in accordance with section 2.9, but request clarification on the definitive list of qualifying actions under the EEC (2002-2005) at the earliest opportunity.
- 5.13. npower request further clarification of this paragraph.
- 5.27. npower request clarification on Ofgem's definition of expectation in relation to homes with a high degree of air infiltration.
- 5.29. The English House Condition Survey (EHCS) 1996¹ indicates that 21% of houses are of solid wall construction. It has been estimated that the average SAP rating for these houses is less than 25², thereby representing highly energy inefficient homes. It is npower's view that the threshold for significant improvement should be set at a practical level to encourage further development in the technologies behind external wall insulation. Stimulation of this energy efficiency sector has considerable potential to assist in the objectives behind many of the energy efficiency and fuel poverty programmes that operate across the United Kingdom.
- 5.42. Whilst npower understand the logic being applied to the significant improvement threshold for lighting, we do not support the absolute requirement to compare alternative lighting products to CFLs. There are instances where the development of lighting technology, being fashion-led, may produce products where there have been no previous CFL equivalent. npower wish for Ofgem to reconsider the applicability of the CFL comparison, and provide an alternative benchmark in such situations, relating to the actual market situation.
- 5.44. npower do not agree with the finite implications of 5.44. In referring back to earlier comments on sections 2.3-2.5, an action's characteristics may provide innovation in terms of lifetime above that previously factored into the Ofgem algorithm.
- 5.50. npower request further clarification on the calculations behind figure 5.1. npower believe a more practical method of eligibility should be considered for heating technologies. Whilst we refer to our earlier comments in section 5.5 in regard of technology comparisons, the considerable volume of variables, e.g. CoP, heat demand, size, output, etc will make the process of Innovative Action accreditation over complicated. This may have a prohibitive impact on energy suppliers' involvement in new heating technology.
- 5.51. & 5.52. npower seeks clarification from Ofgem on the applicability of packaged measures to create an action that complies or exceeds the future threshold for improvement and is thereby eligible for Innovative Action.
- 5.56. npower seeks further clarification from Ofgem on the aspect of heating controls installation without boiler replacement, in particular a definition of a fully controlled system. npower is also concerned about the use of a 20% improvement threshold, in a technology area that has improved considerably over recent years.

¹ DETR 2000; Housing Research Summary Number 120

² Pett, J; Affordable warmth for 'hard to heat' homes: finding a way forward? ACE

5.64. & 5.67. Throughout this consultation response, npower has consistently supported the use of a differentiated threshold for energy efficiency improvement, depending upon the technology in question. npower fully support Ofgem's proposal to potentially allow A++ appliance units to benefit from an Innovative Action incentive.

npower also wish Ofgem to consider the case for Innovative Action support for A+ appliance units should determination of supplier's qualifying action not include A+ units.

5.70. npower wish to reiterate our comments to sections 1.5 and 1.6, dCHP should not automatically qualify for an Innovative Action incentive without first providing evidence of the level of energy saving improvements attainable. This is of particular importance if the improvement threshold is below that set for alternative heating technologies.